

FINANCIAL TIMES

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EEC hormones ban: more politics for the farmer, Page 15

Table with exchange rates for various currencies like Dollar, Pound, Franc, etc.

World news

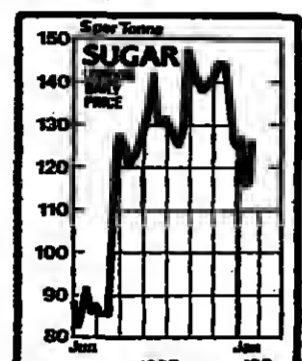
Business summary

Singapore charges Malaysian leader

The Singapore Government charged Tan Koon Swan, the Malaysian Chinese businessman and political leader...

Union Carbide loses \$582m

UNION CARBIDE, US chemicals group facing multi-billion dollar lawsuits after the Bhopal, India toxic gas disaster reported a net loss for 1985 of \$582m or \$8.35 a share.



SUGAR prices stayed firm in London, and India returned to the market as a buyer. Analyst F.O. Licht predicted a reduced world production for 1985-86.

Delhi fire kills 38

A fire which swept through a luxury New Delhi hotel killed 38 people, including at least 22 foreigners, and injured 80. Page 3

French rail plan

France's state-owned railway outlined a 10-year plan to improve safety after three accidents last summer killed 83 people.

Emergency extended

Sri Lanka's Parliament extended a state of emergency for another month amid reports of more clashes between troops and Tamil guerrillas fighting for a separate state.

Italian flats blast

At least five people died when an explosion ripped through an apartment building on the edge of the city of Modena in northern Italy.

Peres progress

Israeli Prime Minister Shimon Peres held further talks in London with US assistant Secretary of State Richard Murphy. The Israeli side claimed that half the obstacles preventing direct negotiations with King Hussein of Jordan had been overcome. Page 16

N Ireland elections

Northern Ireland voted in elections that were forced on the British-ruled province by its Protestant majority to show their opposition to links with Dublin.

SA tribal clash

At least 30 people were killed during a tribal clash between Zulus and Fingos in Umhlangeni near the Indian Ocean port of Durban.

Marcos trial threat

Philippines presidential candidate Corason Aquino plans to sue President Ferdinand Marcos on trial if she wins next month's election. Page 3

EEC famine aid

The European Commission is to give Ecu 10.5m (\$17.1m) emergency food aid for 10m famine victims in Ethiopia and Sudan.

Belgrade in IMF talks

Yugoslavia and the International Monetary Fund began discussions which may hold the key to further Western credits for the country's embattled economy. Page 2

Bolivian strike

Bolivian workers held a general strike against the Government's economic policies, only hours after President Victor Paz Estenssoro swore in a new Cabinet committed to controlling inflation.

Thatcher faces growing crisis of confidence

BY PETER RIDDLELL, POLITICAL EDITOR, IN LONDON

MRS MARGARET THATCHER and her Conservative Government faced a growing crisis of confidence last night after the British Prime Minister failed in a statement to the House of Commons to check the widespread parliamentary criticism of her handling of the Westland affair.

It was clear last night after a meeting of the 1922 Committee of backbench Conservative MPs that many of them remained deeply unhappy about the Government's approach. Although there was an attempt last night to rally backbenchers behind Mrs Thatcher herself, there was renewed criticism of the role of Mr Leon Brittan, the Trade and Industry Secretary, with fresh calls by several senior MPs for his resignation. His future is therefore in growing doubt.

Westland share battle as Sikorsky buys 6.7%

BY LIONEL BARBER IN LONDON

SIKORSKY, the US helicopter maker partnering Fiat of Italy in a rescue plan for Westland, is understood to have bought a 6.7 per cent stake in the ailing British helicopter manufacturer.

The share purchases made late on Wednesday led to frenetic activity in Westland shares yesterday as the rival European aerospace consortium attempted to buy back Westland closed at 125p, up 26p on the day.

Stockholm wage hopes dashed

BY KEVIN DONE, NORDIC CORRESPONDENT, IN STOCKHOLM

SWEDISH government hopes that trade unions and employers could agree to negotiations on a new national wage settlement spread over three years were dashed yesterday when the employers decided to insist on decentralised wage bargaining in the sector.

The leaders of LO's 24 member unions have been called to emergency consultations today.

With growth forecast to slow to about 1 per cent this year and virtually stagnating in 1987, Svenska Handelsbanken warns that unemployment could rise next year to its highest post-war level.

Sweden's competitiveness in foreign markets could only be strengthened sufficiently to maintain employment levels by a wage freeze or another devaluation.

In a gloomy set of economic forecasts published yesterday, Svenska Handelsbanken, one of the country's leading commercial banks, warned that Swedish industry's competitive position would deteriorate both this year and next year as a result of higher wage cost increases and a lower increase in productivity than in other countries.

The new plan centres on a capital reconstruction for Westland which will require only 50 per cent majority support from shareholders at an extraordinary general meeting.

UK holds out against rise in interest rates

BY PHILIP STEPHENS, GEORGE GRAHAM AND DOMINIC LAWSON IN LONDON

THE BRITISH Government sought to hold out against an immediate rise in interest rates yesterday as a further slide in oil prices to six-year lows triggered the fourth consecutive day of heavy losses for the pound.

At one point yesterday, the price of March and April cargoes of the main North Sea crude reached a low of \$17 a barrel, after Sheikh Ahmed Zaki Yamani, the Saudi Arabian Oil Minister, had said there might be "no limitation to the downward (oil) price spiral."

As the political row over Westland heightened the uncertainties in financial markets, the Bank of England injected some \$450m (£620m) into the money markets at 12 1/2 per cent base rates.

Mrs Margaret Thatcher, the Prime Minister, responded to demands from the opposition Labour Party for a clarification of official policy by re-affirming that interest rate rises were unwelcome but that lower inflation remained the first priority.

Dr David Owen, the Social Democratic Party leader, called on Mrs Thatcher to make it clear that if interest rates rise, as many fear will happen tomorrow, that this will be accompanied by a decision to join the European Monetary System.

Whitehall officials were insisting that the Treasury would act if its inflation target was jeopardised, but there were signs that its reluctance to sanction higher borrowing costs also reflected the Government's political troubles.

Resisters pushing up industry's costs, a rise in bank lending rates would almost certainly lead to an increase in building society home mortgage rates, which would feed through into higher retail price inflation.

One senior Whitehall official said yesterday that it would have been inconceivable for the Government to have announced a rise in base rates before Mrs Thatcher had made her statement to the House of Commons.

The Treasury's inaction over the past few days has also raised questions over whether there has been a shift in the exchange rate policy adopted by the Government last year.

In his budget speech last March, Mr Nigel Lawson, Chancellor of the Exchequer, made clear that the

Government would react to sharp falls in the exchange rate, whatever their cause.

Recent events, however, suggest that he is prepared to tolerate at least some fall in sterling's value if it is entirely attributable to lower oil prices, which put downward pressure on inflation through cheaper petrol and reduced industrial costs.

Against that, the authorities acknowledge that unless the pound stages a recovery, further resistance to higher base rates would risk undermining the confidence of financial markets in the Government's anti-inflation strategy.

A Treasury statement seeking to calm the markets by downplaying the significance of North Sea oil in Britain's economy had little impact yesterday as the foreign exchange markets reacted to Sheikh Yamani's comments.

Mr Tony Blair, the Labour Party's Treasury spokesman, said that the statement had compounded uncertainties in financial markets.

ITT delays key US digital switch contract

By Paul Taylor in New York

ITT, the US-based multinational group, said yesterday that it had delayed installation of the first commercial US order for its advanced System 12 digital telephone exchange switch by about a year because of software difficulties and other delays adapting the equipment to North American standards.

The delay raises serious questions about whether ITT will miss a key opportunity to sell System 12 - its flagship product developed over 10 years at a cost of \$1bn - to the now independent and digital-hungry 22 local Bell telephone companies.

It also raises the prospect that ITT will be forced to withdraw or scale back its plans to grab a slice of the fiercely competitive digital switch race in the US in order to concentrate on sales in Europe and elsewhere. If ITT is forced to withdraw from the US battle, it would be a serious blow for the company and Mr Rand Arasko, ITT's chairman, who had made adapting the switch to US standards one of his top priorities.

Wall Street has long viewed ITT's heavy investment in System 12 as a high-risk gamble and viewed adoption of the complex equipment to US standards as a key test of Mr Arasko's emphasis on advanced research and development and management skills.

The revelation that ITT has told United Telephone of Florida that it can not now deliver System 12 later this year also comes at a time of significant realignment within the world digital switch manufacturing industry. Only last week GTE, the US telecommunications group, announced plans for a joint venture with Siemens of West Germany for an advanced telecommunications equipment joint venture.

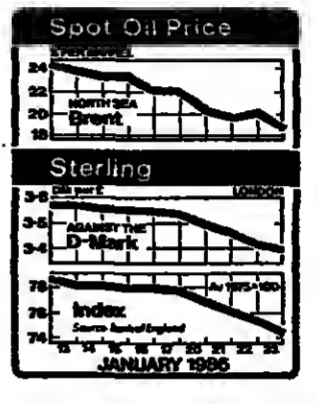
GTE and Siemens are among a raft of US, European and Japanese companies competing for a slice of the lucrative US digital switch market currently dominated by AT&T and Canada's Northern Telecom. Digital switches represent the latest generation of advanced telecommunications equipment replacing older central exchange equipment and allowing telephone companies to provide a host of add-on customer services.

The US market for such equipment is estimated to represent about a third of the total worldwide market and is potentially the most dynamic in the short-term because of the break-up of the Bell system.

ITT had hoped to parlay its success in Japan into a major role in the US market.

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CONTENTS table listing sections like West Germany, Malaysia, Argentina, Technology, Editorial comment, UK law, Thatcher, etc.

Advertisement for Tanker Fleet Services featuring a large image of a ship and text about fuel efficiency and cargo delivery.

# EUROPEAN NEWS

Court challenges to tax-sharing formula bring about strange alliances, reports Jonathan Carr

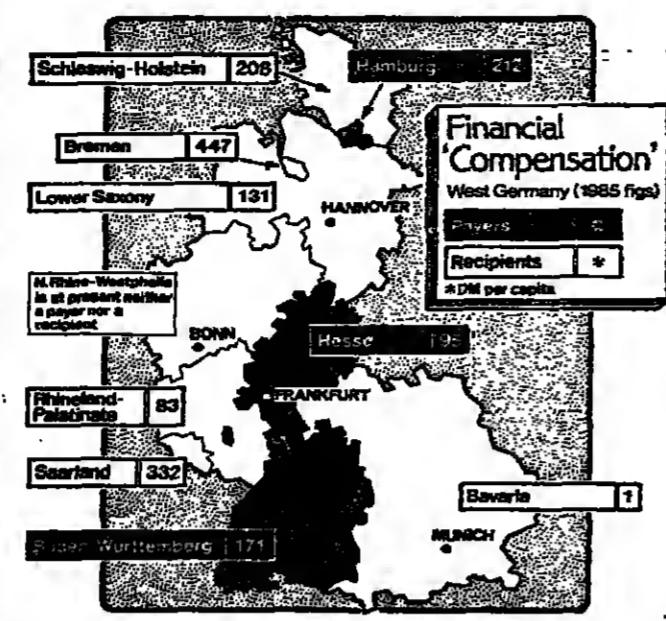
## W. German states battle over revenue

"UTTER RUBBISH," protested Mr. Max Streibl, the normally mild-spoken Finance Minister of Bavaria. He had heard some absurd proposals in his time, but this was the limit.

The cause of the outburst was an acid remark about Munich, the Bavarian capital, made by Mr. Klaus von Dohnanyi, Lord Mayor of the city-state of Hamburg. He charged that Hamburg was pouring out so much cash to help other West German regions that Munich might do well to rename its most elegant street Hamburger Allee. Those are fighting words to any self-respecting citizen of the "free state" of Bavaria.

There are several key exceptions to this general rule. For example, special allowance is made for the city-states (Hamburg and Bremen) on the ground that they have to pay relatively more for local transport, public order and so on than do the other states. Even so, Hamburg remains one of the three states paying into the Finanzzausgleich and has the biggest per capita bill.

It was the state of North Rhine-Westphalia (NRW), followed at varying intervals by Baden-Württemberg, Bremen, Hesse, Hamburg and the Saarland, which began the trek to the constitutional court in mid-1983. At first sight this may seem odd, because, as the table shows, NRW neither contributes to nor receives Finanzzausgleich funds. It used to pay into the pool but in the meantime its tax position has sunk to roughly the Länder average.



more from the Finanzzausgleich than any other. Needless to say, it has not gone to the constitutional court.

By far the biggest single contributor is the southern state of Baden-Württemberg which now puts up roughly 70 per cent of all the funds available for transfer. This reflects the rise of the state as an economic powerhouse, with a good spread of fast-growing, high-technology business, the lowest unemployment rate in the country and ever-swelling tax revenues.

## Von Galen takes SMH blame

BY JOHN DAVIES IN FRANKFURT

COUNT FERDINAND von Galen, the once prominent West German banker, told a court in Frankfurt yesterday that he accepted moral responsibility for "mistaken decisions" by the bank which he used to be senior partner.

In late 1984 Mr Esch was sentenced to three and a half years jail for breach of trust and contravening West German company law. Count von Galen, 50, told the court that he had not wanted to cause financial harm to others or enrich himself. He and his family had lost DM 120m (\$49.1m) as a result of the affair.

The SMH affair, one of West Germany's most spectacular financial debacles since the second World War, speeded up moves to tighten the country's banking laws, in particular the degree of lending to a single company or group of companies.

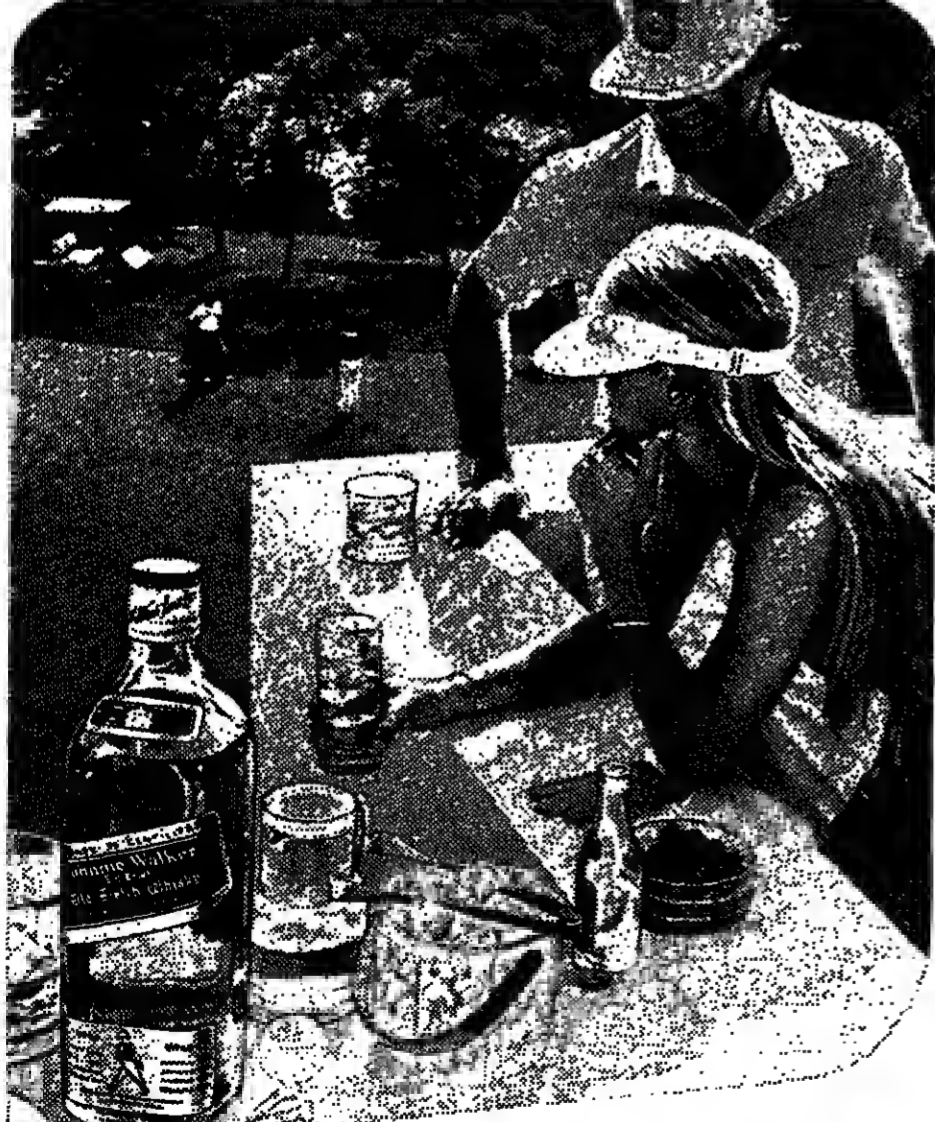
## CDU mayor suspended over corruption charge

BY LESLIE COLTIT IN BERLIN

THE GOVERNING mayor of West Berlin, Mr Eberhard Diepgen, whose Christian Democrat (CDU)-led government has been charged with widespread corruption, yesterday suspended a CDU district mayor, pending the outcome of an investigation.

Mr Klaus-Rüdiger Landowsky, the general secretary of the West Berlin CDU, confirmed that his party received up to DM 100,000 (\$49,883) in contributions from the arrested builder. Mr Landowsky was criticised in the press for holding posts on the executive board of the city mortgage bank and a building credit bank, in addition to his political office.

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## EIB likely to have role in Channel tunnel finance

BY IVO DAWNAY IN BRUSSELS

THE EUROPEAN Investment Bank, the EEC's main lending institution, will almost certainly play a role in financing the Channel tunnel project, Mr Ernst-Guenther Broeder, EIB president, said at a presentation of the bank's 1985 results yesterday.

Mr Broeder said that the bank had already discussed the civil engineering scheme with the British and French, but he would not expand on the likely level of EIB commitment to the project.

## Greek tax Bill proposes prizes, prison sentences

BY ANDRIANA AERODIACONU IN ATHENS

THE GREEK Government has tabled an innovative tax bill in Parliament. It makes tax evasion a criminal offence and establishes an honesty prize for truthful declaration.

for more than half the gross domestic product. At the same time, taxpayers judged to have been frank in their declaration will be rewarded with bonuses of up to 200,000 in the form of a 10 per cent discount on their taxes, as well as financing on favourable terms by state commercial banks. The measures apply to companies as well as to individuals.

## Malta bid for pact on terrorism set back

By Stewart Dalby and Godfrey Grima in Valletta

THE ATTEMPT by Malta's Prime Minister, Dr Carmelo Mifsud Bonici, to elicit from selected Mediterranean countries a co-ordinated commitment not to support the export of terrorism appears to be in difficulties.

He had planned to convene a round table conference on the terrorism issue and had invited Algeria, Cyprus, Egypt, France, Greece, Italy, Tunisia, Yugoslavia and Libya to attend. However, only Cyprus has said it will do so, Egypt and Tunisia have refused, and Mr Bettino Craxi, Italy's Prime Minister, told Dr Mifsud Bonici at their meeting in Sicily this week that he would take action only in conjunction with the rest of the EEC.

## Political challenge for Mahathir as Tan faces charges

BY WONG SULONG IN KUALA LUMPUR AND CHRIS SHERWELL IN SINGAPORE



Dr Mahathir denied charge of corruption

THE LODGING of criminal charges in Singapore yesterday against Mr Tan Koo Swan, the Malaysian entrepreneur who is head of the country's Chinese community, could hardly have come at a worse time for Dr Mahathir Mohamad, Malaysia's Prime Minister.

His four-and-a-half year rule was already coming under increasing challenge, both from within the dominant United Malays National Organisation (UMNO), which he leads, and from a resurgent fundamentalist opposition movement called Parti Islam. Now, with the 61-year-old Malaysian leader obliged to go to the polls before April next year, his options are beginning to look increasingly limited.

The darkest pessimists think his position is becoming so eroded that he may be able to survive the year. Certainly his plans to hold an early election before May seem to be ruled out, but he is still believed to be anxious to secure a fresh mandate if he can.

of Mr Daim Zaiduddin, a prominent businessman who is Dr Mahathir's confidant, together with the placing of others in strategic positions in the Government and party, has also seemed to put a question mark over the natural succession of Datuk Musa.

At the same time Dr Mahathir is having to word off allegations of corruption. In an extraordinary interview on national television on Wednesday night, he was forced to deny that he was corrupt or that he had amassed enormous personal wealth while in power.

## Danish plea rejected on EEC reform

FRANCE AND Spain have rejected a Danish plea for fresh talks on European Community reforms which were voted down by Denmark's Parliament on Tuesday, Reuter reports.

Mr Roland Dumas, the French Foreign Minister, said after meeting with Mr Uffe Ellermann-Jensen, the Danish opposite number. "It is impossible for this negotiation to be reopened in any way." The Dane was on the third stop of a two-day tour of six EEC capitals.

## Singapore urged to ease taxes on businesses

BY OUR SINGAPORE CORRESPONDENT

THE SINGAPORE Government has been told to tap the vast surpluses of its statutory boards in order to make sweeping cuts in corporate and other taxes and offer more attractive incentives to local and foreign businesses.

It recommends that all offshore income should be taxed at a concessional 10 per cent rate instead of the current 40 per cent which applies in most cases. Withholding tax on interest for non-residents should fall from 40 to 15 per cent, it says.

## IMF back in Belgrade for interest rates talks

BY ALEKSANDER LEBL IN BELGRADE

AN INTERNATIONAL Monetary Fund (IMF) team is back in Belgrade trying to patch up differences with the Yugoslav Government over its interest rate policy.

and anticipated inflation for the next two months. If applied, that would increase the rate from 81 per cent to more than 80 per cent. The Government feels that the economy cannot bear the burden of high interest rates and not even the burden of the much lower blended rate it has been paying.

## Communist ends reluctant race

A COMMUNIST candidate who campaigned vigorously in favour of a Socialist rival for Sunday's presidential elections in Portugal, withdrew officially from the contest yesterday, saying his campaign had been justified, Reuter reports from Lisbon.

Party, which commands between 16 and 20 per cent of the national vote, used his official broadcasting slots to urge the electorate to vote for Mr Francisco Salgado Zenha, dissident Socialist.

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# Delhi hotel fire leaves 38 dead and 80 injured

THREE BRITISH engineers were among 38 people killed early yesterday morning when a fire swept through the bottom floors of a 12-storey hotel in New Delhi, sending deadly black smoke into bedrooms above.

Another 80 people were injured, making this one of India's worst hotel fire disasters. There were 186 guests in the hotel which means that a fifth of the total died.

Police were last night investigating the possibility of sabotage at a time when security in New Delhi is on the alert for extremist attacks linked with the troubles in the northern state of Punjab.

Firemen fought the blaze for more than five hours and bodies were still being carried out of the hotel yesterday morning. An official judicial inquiry was

## John Elliott reports from New Delhi on one of India's worst hotel fires

ordered by the Delhi administration.

The hotel, the five-star Siddarth Continental in South Delhi near the city's main airport, is popular with foreign and Indian businessmen and many foreign companies used it for teams of visiting engineers.

Two of the three British engineers killed were employed by Elliott and Lomax, Cheltenham-based civil engineering consultants on Northern Engineering Industries' £230m Rihand power station contract. They were Mr Richard Pinkey

and Mr John Medland. The third was Mr Michael Woolgar of BTR Silvertown from Burton-on-Trent.

Five other engineers on the Rihand project escaped from their bedrooms along with four British employees of Indian Shaving Products, a new razor blade company being set up by Gillette of the US and UK.

"There was a lot of banging and shouting and I opened my bedroom door and found the corridor full of acrid black smoke," said Mr Doug Bessey, a Gillette engineer. "We put wet towels round our mouths and noses and got to a nearby fire escape."

"We had heard no alarms and it seemed that the first fire engine to arrive had no water and the fire must have been going for at least an hour before it arrived."

Other guests also reported that they heard no fire alarms, although the hotel management said they were working. Some guests jumped from upper windows to escape the smoke while others died in their rooms after failing to break windows with chairs, not realising they could be unfastened and opened. Some survivors reported that panic started when lights went out.

The hotel was built in 1980 and is one of two hotels in Delhi owned by a family construction and engineering company called Jalprokash.

Although safety standards generally low in India, warnings have been issued to other central Delhi five-star hotels in recent weeks about inadequate fire precautions at a time when a surge in business visitors is filling most major hotels.

But the Siddarth management said yesterday that it had passed a fire drill with the city's fire authorities ten days ago. The hotel however had no sprinkler system, only a smoke-sensitive alarm system which appeared not to work.

A five-star rating means the hotel has fire escape plans on bedroom doors, that fire exits are clearly marked, and that there is some firefighting equipment on each floor.

The fire started in a basement level banquet hall just after 1.30 am yesterday morning which was gutted. Only two people died of burn injuries. "Most people died of suffocation in their rooms," said Mr J. S. Malhotra, the hotel general manager.

Police officers investigating the fire thought it could have been caused by an electric

short circuit, a gas leak or a discarded cigarette. They said they had found no immediate evidence of sabotage.

But Mr S. Jain, architect of the hotel, who surveyed the damage, said he could not understand how the fire had apparently travelled up three floors in about 15 minutes.

"The concrete floors are 6in to 8in thick and are undamaged. Fire could not travel that fast, even up ducts and staircases, so sabotage on different floors is a possibility."

Among the dead were 25 foreigners including three Japanese engineers helping to equip a car factory, and a senior German diplomat and his wife. Among the Indians was a director of the large Rourkela steel plant and two general managers of the Kirloskar group.

# Aquino plans to strip Marcos of immunity and put him on trial

BY SAMUEL SENOREN IN MANILA

PHILIPPINE PRESIDENTIAL aspirant Mrs Corazon Aquino plans to strip President Ferdinand Marcos of his immunity and put him on trial if she wins the polls on February 7.

The removal of Mr Marcos's immunity cover is among eight major points of a political agenda which Mrs Aquino, 52, unveiled before a large crowd of civic and business leaders in a Manila hotel yesterday.

The present constitution which became effective after Mr Marcos declared emergency rule in 1972, provides him with blanket immunity from suits long after he has left office.

Mr Aquino had said she would seek justice for her husband, Benigno Aquino who was assassinated in 1983 and put Mr Marcos on trial for the murder.

In his campaign sorties, Mr Marcos has said Mrs Aquino did not deserve to be voted into office because she was out for vengeance.

Mrs Aquino has charged the 68-year-old President, who is fighting the toughest battle in his political career, with human rights violations and pillaging the economy.

Mr Marcos and his powerful wife Imelda, are the subjects of a US congressional investigation looking into reports that they



Mrs Corazon Aquino

diverted US economic aid. But a team from the US Government accounting office which was sent to Manila last month has released preliminary findings that US economic assistance to the Philippines had been properly applied and disbursed.

AP adds from New York: Mrs Aquino's claim that he was a heroic guerrilla leader during the Japanese invasion of his country in the Second World War is "absurd" and "fraudulent," the US army concluded in reports cited yesterday by the New York Times.

The documents, in US army archives for three decades, state that repeated army investigations found no evidence to support Marcos's claims.

# Last evacuees sail from Aden

BY KATHLEEN EVANS IN DJIBOUTI

BRITANNIA, the British Royal Yacht, made its last mission to rescue the remaining foreigners from Aden yesterday as fighting was reported to have died down in the capital.

The Britannia took on board about 550 non-Soviet nationals, half of whom had been camping out of the battered and besieged Russian Embassy. The refugees were picked up at Little Aden, where they arrived yesterday after a hazardous 15 kilometre drive through the war-torn city. The convoy included Russian and French nationals and a number of United Nations officials.

Several hundred of the foreigners converging on Little Aden awaiting rescue were forced to spend the night outside the gates of the local refinery following a refusal by the refinery manager to allow them to take refuge inside. The plant, one of the country's most strategic installations is now in rebel hands.

Commander Richard Bridges of the HMS Jupiter said that numerous attempts had been made by the Britannia to pick up the stranded foreigners two days ago at Khormaksur, but heavy fighting and poor weather had meant the process was extremely slow and dangerous.

Located close to the airport, the area of the Soviet Embassy has seen some of the heaviest fighting, and the top storey of the main building had been knocked out, said Commander Bridges.

Apart from sporadic outbreaks at Steamer Point, fighting had died down, added the Jupiter commander. The area of Steamer Point is close to the last remaining district held by the forces of President Ali Nasser Mohammed in the capital.

However, reports indicate that loyalist tribesmen from the Abyan area are converging on Aden to come to his assistance.

The defeat of President Ali Nasser is by no means a fait accompli say diplomats in Djibouti. President Ali Nasser has tribal support from Abyan and Shebwa, as well as within the armed forces. This represents around 700,000 out of a population of about 2m people.

For the rebels to impose their will on loyalist territory could prove a divisive process which would hinder the establishment of a formal leadership structure by the rebels. "They cannot form a government, they have to negotiate with Ali Nasser," commented one Arab diplomat in Djibouti.

# Death toll rises in S African tribal clashes

BY ANTHONY ROBINSON IN JOHANNESBURG

THOUSANDS of Xhosa-speaking Pondo fled their shanty towns south of Durban yesterday as Yesterdays large crowd of 500 Pondo broke out again leading to a least 30 deaths and the arrest of 500 Pondo.

The fighting appeared to be a recurrence of the conflict between the two tribes over land rights and the authority of Zulu chiefs which first broke out in November and erupted again on Christmas Day. Some 100 people have died so far in this tribal fighting.

The latest outbreak began when Pondo set fire to a Zulu returning home from a nearby station on Wednesday night. The hotel was built in 1980 and is one of two hotels in Delhi owned by a family construction and engineering company called Jalprokash.

Meanwhile, 11 blacks appeared in a Westonsia court west of Johannesburg yesterday charged with the murder of two white policemen after clashes between miners and police on Wednesday. Police reported that many of 250 miners arrested had previously been treated by witch doctors who made skin incisions and smeared magic ointment claimed to render police bullets harmless.

Swaziland, which like Mozambique has a joint security treaty with South Africa, has

deported 28 members of the African National Congress (ANC) to other African countries.

Lesotho is expected to take similar action against ANC activists as the new military council consolidates its hold over the country. Under the terms of a proclamation issued on Wednesday the military council has vested legislative and executive authority in the hands of King Moshoeshwe II although the king's decisions are subject to approval by the military council.

# Militias clash in central Lebanon

SYRIAN-BACKED militia gunners traded night-long artillery and tank fire with Christian forces loyal to President Amlu Gemayel in Lebanon's central mountains yesterday, AP reports from Beirut. Police said five combatants were killed and seven wounded.

The battle on the eastern flank of the Christian heartland fuelled fears of a new round of all-out civil war.

It followed the arrival in Damascus late Wednesday night of Mr Elie Hobeika, President Gemayel's main challenger for leadership of Lebanon's 1.6m Christians, a week after he went into exile in France.

Mr Hobeika, 29, was flown out of Lebanon after Mr Gemayel's forces crushed his militia followers in a day-long battle on January 13.

The fighting left 350 dead and more than 600 wounded. It also wrecked a Syrian-sponsored peace pact to end the war that Mr Hobeika had signed and Mr Gemayel opposed.

Mr Hobeika held night-long talks with the Syrian Vice-President, Mr Abdul-Halim Khaddam, the accord's architect.

Our Damascus Correspondent writes: the Syrian authorities are leaving no doubt about their full support for Mr Hobeika — whom they refer to as "the chief of the executive committee of the Lebanese Forces" — the position from which he was ousted last week.

# Loan curb for Sri Lanka state bodies

By Mervyn de Silva in Colombo

SRI LANKA'S state corporations and government-supported enterprises, such as Air Lanka and the country's steel, shipping and cement corporations, will no longer be allowed to raise commercial loans from foreign sources.

The Government yesterday approved this proposal of Mr Ronnie de Mel, the Finance Minister, who told the Financial Times: "My bottom line for the debt service ratio was 20 per cent of external earnings but I fear it may reach 25 per cent this year and somewhat higher next year."

In an interview, Mr De Mel said that "1985 may be the most difficult year since independence (1948). Tea prices and production were down last year and rubber and coconut prices slumped. Tourist income has dropped 30 per cent, and foreign remittances by our migrant workers in the Middle East show a downward trend, while defence spending will exceed Rs 7bn (£180m), a five-fold increase. Despite our difficulties in the past, Sri Lanka has had good credit ratings and I want to keep it that way."

The minister was particularly critical of Air Lanka and the shipping corporation and the liberal use by state corporations of "financial packages" which he described as euphemism for commercial credit. Even non-productive projects, he said, have been financed by bank loans and gave the buildings corporation as an example.

For two years the minister has been publicly voicing IMF and World Bank views but political pressure to continue "pet projects" of some ministers has been too strong.



Before we developed a computer system for the police, we looked at their customers.

# Japan Socialist Party shifts to the centre

BY JUREK MARTIN IN TOKYO

THE JAPAN Socialist Party (JSP), the country's second largest party, has taken what appears to be a substantial leap to the centre with the adoption of a new platform largely devoid of Marxist rhetoric.

Specifically, the JSP has announced its willingness to enter into coalitions with any of the other minor parties or with dissident elements of the ruling Liberal Democrats. "Coalition government is the inevitable agent for the development of socialism," the document says.

The new platform constitutes a signal victory for Mr Masashi Ishibashi, the JSP's chairman, who has been engaged in a protracted war with the left since assuming the leadership in 1983. Mr Ishibashi, who had seen several previous party conventions end in stalemate,

was moved to describe this week's agreement on new policies as "an historical turning point" for the party.

He is still saddled with some old shibboleths. Officially, the JSP is still committed to "unarmed neutrality" and to ignoring the existence of South Korea. Mr Ishibashi is said to believe he can practically circumvent these restrictions, even to the point of making a trip to Seoul soon.

Ousting the LDP, however, is another matter. There is no polling evidence that the JSP has risen beyond the approximately 15 per cent public support it has held for several years, nor that centrist parties such as the Democratic Socialists and Komeito are ready to rush into a coalition.

When Surrey Police were looking for a computer they made (not surprisingly) a thorough investigation. They interviewed a number of different computer companies but they chose Burroughs' B20 Series.

Before we installed their computer system, we looked at the way people in their office actually worked. We asked who they needed to talk to inside the office and whether they needed access to a mainframe computer. (Since Burroughs also supplied the Police National Computer, this particular task was made easier but, in fact, the B20 Series can link into most mainframes).

In this case, of course, the office belonged to the CID, so at the same time as building an identikit picture of the way they worked, we looked at how their customers worked.

Already the B20 Series has been taken to the scene of the crime and housed in a

local Incident Room on four major investigations. One such case was the search for the M4 rapist, which involved clusters of B20's in two constabularies linked to the Police National Computer.

The flexibility of the B20 cluster allowed one workstation to work on the M4 enquiry, while another was helping police with their enquiries into a major robbery. In fact, they could cluster up to 64 workstations.

As well as the B20, Surrey Police have also installed an Ofisfile, a filing system that's again designed for the way people work. As Deputy Chief Constable John Evans of Surrey Police says: "We can actually ask it something like 'man with grey eyes' and it will tell us how many times the phrase came up in interviews."

(In a fraud case, a con-man may change

his name four times but he won't change his face, or the colour of his eyes.)

However, the proof of the pudding for John Evans is this: "As a cynical policeman, the great advantage for me is that operational detectives now actually want the system."

In many ways, that's what people are finding whenever our office automation systems are installed. In manufacturing, for example, distribution, commerce, retail, finance and government.

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For more information call Brian Reynolds on 01-750 1420 or write to him at Burroughs Machines Limited, Heathrow Hse., Bath Rd., Hounslow, TW5 9QL.







The Partnership in action. From left to right: Bernd Dublinki, Corporate Controller for Pepsi in Germany; Curt Schade, Chase Service Products; Dietrich Kube, Chase Relationship Manager; and Roland Behring, Accounting Manager, Pepsi in Germany.

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THE MANAGEMENT PAGE

JUST FIVE years ago it was one of the most glamorous stocks on the London market, widely hailed as Britain's fastest growing company.

But last week Burnett and Hallamshire, the coal mining and property group, was only saved from the receivers when a pecked meeting of its shareholders, in the four function room of a Sheffield hotel, voted through a severe financial rescue package dictated by the company's banks.

The shareholders were in an angry mood, and understandably so, for the full horror story behind the collapse of Burnett and Hallamshire only emerged in documents accompanying the rescue deal.

The Burnett affair may lack the political drama of the Westland battle, which has overshadowed it in recent weeks, but it can nevertheless lay claim to considerable importance. For example, the company's losses are larger than those of Westland; second, the affair involves important principles of accounting; and third, it is a cautionary tale of a business going too far too fast, helped along in its early stages by an enthusiastic stock market.

"Most of the problems... have come about as a consequence of a business which has expanded too quickly into activities for which it had inadequate financial and management resources," acknowledges Tom Carille, who recently became chairman to oversee the rescue deal.

Many observers would also argue that the company's extravagant ambitions were reinforced by its accounting methods, and its particularly heavy recourse to off-balance sheet finance. The rescue documents show that by March 1984 Burnett's overall borrowings, including hire purchase liabilities, totalled £154m, compared with shareholders' funds of £108m. Some \$58m of the borrowings were off-balance sheet, albeit disclosed as contingent liabilities.

"Burnett," said one referee banker, "carried off-balance sheet financing to a new art. This kind of financing is often designed to present a better gearing ratio to the world. For example, company 'A' may set up company 'B', which is not a legal subsidiary, and therefore does not have to be consolidated into its accounts, even though company 'A' is ultimately responsible for such liabilities as it has guaranteed. Such techniques can seriously mislead the users of financial statements. The Institute of Chartered Accountants is so concerned about the practice that it recently issued a techni-

Burnett and Hallamshire

Rescue from a financial minefield

Martin Dickson charts the events which brought the UK coal mining and property group to the edge of collapse

cal release both to offer advice and stimulate debate. This says numbers should consider the economic substance of transactions, and not just their legal form, when deciding the appropriate accounting treatment.

The Burnett story — which is likely to be cited as important evidence in this accounting debate — goes back to the late 1970s when George Holsby, the company's finance director, took over first as managing director and then as chairman.

Burnett, founded in 1921 as a coal delivery company, had grown into a reasonably sized energy business, focused mainly on coal; it was the largest open-cast mining contractor to the National Coal Board.

Holsby, a short, dapper man who drove a powder-blue Rolls-Royce, had much greater ambitions and set about turning Burnett into a substantial player in the international energy business.

Burnett's share price soared as he set out on a remarkable acquisition programme, much of it financed by share issues: coal mines in Pennsylvania and South Africa, lignite reserves in Northern Ireland, property in California, feasibility studies in the Philippines, investments in Tierra Del Fuego... At one stage in 1981 Burnett was buying a company a month. Holsby would say to his staff: "Have you bought anything this morning? We bought anything this morning?"

Expansion continued through 1982 and early 1983, even though the shares by then were well below their peak as City sceptics asked whether the company was moving too fast. A

heavy rights issue did not help market sentiment, and nor did signs that the group had problems with one of its largest acquisitions — a majority stake in the South African mining group, Rand London.

Nevertheless, Holsby continued to exude optimism. In the 1983 annual report, issued in June, he declared that the stage had been prepared for "further impressive achievement" and he predicted "further substantial growth... in the current year and beyond".

But by the end of 1983 Holsby had resigned from the group, because of "ill health," the share price had collapsed and Eric Grayson, his replacement and former deputy chairman, was reporting a slump in profits, blamed in large measure on recession in the coal industry.

Under Grayson's leadership, Burnett began to retrench. But it could not move fast enough as problems crowded in on all sides. The year-long British coal strike hit its bread-and-butter open-cast operations; the Iran-Iraq war battered its construction contracting work in Iraq.



George Holsby: architect of the coal company's ill-fated expansion

erty in the early 1980s seemed at first to be going well. In 1982, Holsby spoke of it producing "substantial profits". In 1983, there was a £9.3m contribution to group operating profits of £38m from the sale of one development, Dart Square.

In all, £11.8m profits were taken into the accounts on this sale in 1982 and 1983 — but they have now had to be written off. Dart was sold to a joint venture in which Burnett had a 50 per cent share. The other partner had an effective right of withdrawal if planning permission was not obtained — which it never was — and no cash changed hands in the deal. Burnett simply took the profits on the sale into the balance sheet as a debtor.

This news prompted one angry shareholder to ask at last week's meeting: "When is a profit not a profit?"

By 1984, Burnett had a commitment to six speculative developments in California, which relied entirely on the company for funding until they were completed, tented and sold. But it was only in August of that year that the company put a significant management presence on the ground there.

Moreover, the joint venture Burnett kept the substantial debt involved off its balance sheet. By the time of the 1984 accounts, its California borrowings totalled £28.6m, but these, appeared anonymously under a general contingent liability for

amounting to £41.25m in respect of certain contracts and undertakings entered into in the ordinary course of business.

With problems mounting on all sides, the company tried to reduce its exposure in California, but a downturn in the property market and a change in tax legislation aborted two sales early in 1985. This, coupled with the burden of continuing to service the debt, played a major role in triggering the crisis.

The shortage of funds meant that Burnett was unable to meet the terms of a 1983 deal under which it acquired a 24 per cent stake in PBS, a Pennsylvania coal company, for \$2.4m, with an agreement to buy the rest of the equity in stages for a further \$7.6m.

At the time, the company said the deal had been secured on advantageous terms. What it did not reveal

— and what only emerged in the rescue operation — was that it had agreed to pay the vendors a minimum annual royalty of \$7.5m a year for 22 years, irrespective of whether any coal was mined, but the subsequent collapse of coal prices turned the deal horribly sour.

Meanwhile, 51 per cent-owned Rand London, Burnett's first big acquisition, was proving more and more of a nightmare. It was losing money from its coal mining operations and only brought these into profit in the year to last March. It and Burnett also shared the ownership of a coal terminal at Ghent, in the Netherlands, which was completed behind schedule in late 1983 and, because of the depressed state of the shipping market, lost money from day one.

But an even bigger skeleton was hidden in the Rand London cupboard: before Burnett acquired it, the company — and unknown to Burnett — Rand London's principal subsidiary had committed itself to an onerous five year shipping contract, which it later repudiated, it could not meet.

To prevent its probable collapse, Burnett agreed to buy the ship involved — the MV Halium Venture — on hire purchase of \$27.4m.

To keep this off its balance sheet, the deal was done through a new company, Minco Shipping and Finance, in which Burnett's public relations adviser, City and Commercial Communications, agreed to hold a majority stake. Burnett, however, guaranteed the performance of the hire purchase contract and was wholly responsible for funding

Management abstracts

Technology and Competitive Advantage. M. E. Porter in The Journal of Business Strategy (US), Winter 85 (18 pages)

Describes the links between technological change and competitive advantage which arise out of technology's role in the company's "value chain" and its ability to achieve lower costs and/or quality differentiation; shows how technology diffusion can change industry structure — for better or worse. Discusses methods for selecting a technology strategy — which could concentrate on modest improvements rather than major breakthroughs — and for deciding whether to adopt a role of leadership or "followership," looks at the advantages and drawbacks of being a "first mover" in new technology, and the benefits and pitfalls of technology licensing. Gives advice on forecasting the evolution of technology in an industry, and the analytical steps involved in formulating a strategy for the technology into a competitive weapon rather than a scientific curiosity.

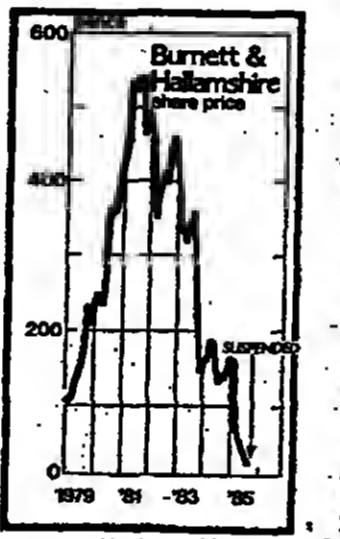
The Caveats in Mentorship. D. W. Myers & N. J. Humphreys in Business Horizons (US), July/August 85, (5) pages

Points to general support for mentoring, (by which less experienced personnel are assigned to the more experienced); warns, however, of pitfalls in mentor/protege selection (for instance, the dangers of discrimination), in the mentoring process (eg. where the mentor is too busy to be a good tutor) and in the aftermath (eg. where the mentor falls out of favour in the organisation and the protegee suffers).

Public speaking for women. B. Schlueter-Klake in Assistants (Fed Rep of Germany), July-August 1985 (2) pages, (English version available)

Maintains that men score over women participants in business discussions; analyses what advantages they have, what women can do to be accepted on equal terms, and to what extent seminar training can help.

These abstracts are condensed from the abstracting journals published by Anbar Management Publications. Licensed copies of the original articles may be obtained at a cost of £4 each (including VAT and p+p; cash with order) from Anbar, PO Box 23, Wembley HA9 8DU.



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The Financial Times is proposing to publish a Survey on
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on February 14, 1986
A synopsis is available from Gerrard Rudd. Tel: 01-248 0769

Company Notices

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# IBM enters Risc business...

WITH THE introduction of the IBM RT PC this week, IBM became the first mainstream computer maker to take a gamble on reduced instruction set computer (Risc) architecture.

IBM is taking an uncharacteristic technology lead in this new and controversial style of computer architecture which has previously been adopted only by start-up innovators such as Pyramid Technology and Ridge Computers.

Other big computer manufacturers are, however, expected to follow. Hewlett Packard, in particular, is understood to be preparing to launch a Risc-based successor to its line of microcomputers. Digital Equipment, Data General, Sperry and Honeywell also reportedly have Risc machines under development.

While few industry analysts expect Risc machines to

Louise Kehoe, in San Francisco, on the launch of a new type of CAD/CAM workstation

replace conventional computer architecture in the foreseeable future, the application of Risc techniques in scientific and technical computers can be expected to grow rapidly now IBM has set its seal of approval on the concept.

Basically, Risc, as the name implies, is a computer that has fewer and simpler instructions than most. First developed at the IBM Thomas J. Watson Research Center in the early 1970s, the approach turns computer architecture trends on their heads.

Over the past several years microprocessors incorporating larger and more complex instruction sets have been

developed. In contrast, Risc chips have small, simple sets of instructions.

Restricting the instruction set of a computer is analogous to restricting a person's vocabulary to a small number of short words. Charles Foundryer of Davatech, a research group in Cambridge, Massachusetts, says: "It's like pidgin English. If you say enough of those short words you can get lots of complex ideas across without having to know much English."

"And if you can say short words faster, then you may end up getting your ideas across more quickly."

In computer terms, short instructions are much faster

than long ones. And Risc researchers found that computers use the same few basic instructions most of the time.

This is particularly so in scientific and engineering applications where many of the programs are produced by compilers (computer language translators) that do not take as much advantage of the "rich language" of complex instruction sets as the hand-written codes of business programs.

So the instruction set on the IBM RT PC microprocessor is reduced to basic often-used commands, such as add, subtract, shift and compare, that it can execute in a single machine cycle, about 170-billionths of a second. The micro's operation is speeded because it has fewer instructions to search through and its basic commands are easier to execute.

## David Lascelles on an extraordinary banker



Bill Murphy: a coup

ALTHOUGH new technology is reshaping the banking business, root and branch, most UK banks are run by people trained as bankers rather than experts in computers and electronics.

A rare exception is Western Trust and Savings, a licensed deposit-taker based in Plymouth. Its new managing director, Mr Bill Murphy, spent his formative career years in computer technology. He specialised in banking later.

Not that Mr Murphy is at an advanced age. Still only 38, he took over the top job last August and should live to see plenty more change in banking. But he and colleagues have already won Western Trust a reputation far beyond its size for turning new technology to good account.

He recently scored a coup by licensing a \$1m (£710,000) banking software package to Citibank Savings, the UK subsidiary of the New York banking giant, which prides itself on its technological excellence. "They evaluated the market very carefully. It's an important endorsement for us," he said.

Mr Murphy started his career on the computing side of companies such as Hill Samuel and ICI. He moved to Citibank in the 1970s to work in its European Systems Group in France, Switzerland, the Gulf, Belgium and the UK, specialising in retail banking.

From 1976 to 1980 he worked in corporate banking in Brussels. Then he joined the Royal Bank of Canada, Canada's largest bank, which had just bought Western Trust and Savings as an entry into the UK retail banking market. Mr Murphy was given the job of automating it.

As banks go, Western Trust was tiny: a balance sheet of £100m and about 30 branches scattered around southern England and the Midlands. But the Royal Bank was prepared to invest several million pounds to make it one of the most technologically advanced banks in the UK.

"We have had the luxury of automating the bank from top to bottom," he says. "The Royal Bank decided that having gone into the market it needed a slick administrative base and a flexible customer service operation."

Mr Murphy also decided to expand the bank by using technology rather than bricks and mortar. Two things resulted.

One was the creation of Tamar, a software system for retail banking, which is now the basis of a service which the

Plymouth. The programme has been designed so that non-banking retailers can understand the questions and feed in the right information.

Mr Murphy says: "Banking is basically a very simple business, though dark-suited gentlemen like to make it mysterious. I'm not sure that banking will ever be fun. But we can make it attractive and amenable to the consumer." He believes technologists must put themselves in the consumer's shoes and make sure that technology is useable.

Western Trust's first deal was with Irish Life, the life insurance company which is using Tamar to expand its range of financial services. Other insurance companies are interested.

Last month Western Trust signed on Wickes, a chain of home improvement shops, for Tamar. Wickes' customers can get credit in its stores through bank terminals, and obtain mortgages and other financial services such as insurance. They can even open a bank account: the cheques are labelled Wickes but the small print makes clear Wickes is the bank's agent.

Mr Murphy sees scope for extending the service to other retailers, especially those with a good local reputation who will give the bank a strong start in new markets.

He is also aiming at small independent professional firms such as estate agents and solicitors who might want to offer financial services.

It is extending its reach through Link, which it helped found with National Girobank. Link now has 24 members, including many of the UK's largest building societies, Citibank Savings, American Express, Diners Club and the Co-op Bank. The first Link machines are already working: there should be 1,000 of them by the end of the year, and possibly double that by the end of next, making it one of the largest ATM networks in the UK.

But technologically oriented though he is, Mr Murphy stresses that the bank is still basically in the business of retailing financial services, and that technology must remain a means to supplying them and not an end in itself.

"We do not see ourselves being directly in the software business," he said. Because of this, the bank has engaged Software Sciences, the software subsidiary of Thorn EMI, to market, instal and provide after sales support to licensees of the Tamar system.

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## R and D spending up in US

INDUSTRY in the US is stepping up its support of research in areas such as electronics, communications, sensors, advanced machinery and energy use, according to a study on research and development for 1986 by the Battelle Institute.

The US's total research and development bill for the year will be \$116.5bn (£33bn), an increase in real terms of 4.4 per cent on 1985, the study says. Of the total, industry will contribute 49.5 per cent and the US Government 46.7 per cent with the rest coming from academic and non-profit organisations.

According to the study, the aerospace industry in the US will be the leader in spending, accounting for \$18.5bn, of which 75 per cent will be funded by the US Government.

Other industries rely more on their own funds. Communications will spend \$17.7bn (60 per cent funded by industry) and electrical machinery \$11bn (87.5 per cent from industry).

The chemical industry will spend \$9.5bn (84.2 per cent from industry); car and transport \$7.7bn (88.8 per cent from industry); and professional and scientific instrument companies \$7bn (83.6 per cent from industry).

Details from Battelle Institute, Columbus Division, 505 King Avenue, Columbus, Ohio 43201-2693.

### Welding with an electronic beam

WENTGATE of St Ives, near Haddington, is setting a new range of machines for welding metal objects with electron beams at low voltages.

The welding, controlled by computer, takes place in a vacuum chamber into which the objects can be loaded by automation.

## ... and takes aim at a fledgling industry

WHENEVER IBM enters a new sector of the computer market, it threatens the established players. This week's introduction of a high performance engineering workstation for computer aided design, manufacture and engineering is no exception.

The announcement is seen as the next step in IBM's determined efforts to conquer the market for engineering and technical computing where it is currently at its weakest.

With the IBM RT PC, IBM is muscling into a field dominated, until recently, by a band of start-up companies which have ridden the wave of success in a high growth market. Sales of engineering workstations are expected to grow from \$735m (£522m) last year to \$1.1bn in 1986 and \$2.5bn by 1989, says Detequest, a market research company.

Daisy Systems of Mountain View, California, Mentor Graphics of Portland, Oregon, and Valid Logic of San Jose, California, pioneered the CAE workstation business and continue to be market leaders.

Dozens of software companies have developed CAD/CAM and CAE products for different engineering problems. And two more start-up companies, Apollo Computer of Chelmsford, Massachusetts, and Sun Microsystems of Mountain View,



The desktop version of the IBM RT PC.

California, have built their businesses on supplying workstation hardware.

Recently, Digital Equipment Corporation has also established itself as a big hardware supplier in the CAD/CAE market with its Microvax computers.

IBM will have a big impact in this market. "For 1986, they will sell 20,000 to 25,000 units," predicts Egil Juliussen, chairman of Future Computing, a market research firm. "With an average selling price of between \$15,000 and \$20,000 that is half a billion dollars in sales." The base price of the

RT PC is \$11,700, not including software or a monitor.

The role of the engineering workstation is essentially that of the engineer's personal computer. But because of the nature of his or her work, the engineer requires performance and features that are not found on general purpose PCs. Superbly refined graphics capabilities are a must for complex circuit diagrams, drawings of three-dimensional designs and plots of complex data. Number crunching speed is needed to boil down chunks of numerical data.

The new IBM workstation

uses a proprietary 32-bit microprocessor that will be difficult for competitors to duplicate and a new operating system that combines AT & T's Unix with IBM-developed enhancements and 1 trillion (million million) characters of virtual memory. Up to eight users can share an RT PC using terminals. With an optional add on board, the RT PC can be made compatible with IBM's PC AT personal computer.

With the RT PC, IBM is offering several application programs, including its first integrated circuit design program and programs for developing complex drawings, processing, analysing and displaying numerical data such as geographical surfaces and subsurfaces for oil exploration.

Its success, however, will be largely determined by the willingness of third parties to develop software for it.

Charles Foundryer, of Davatech, a research group in Cambridge, Massachusetts, says: "Although the RT PC is a very capable piece of equipment it will not be available until March and it uses a new operating system which could delay the flow of essential software applications."

Both factors will give competitors a little breathing space—time in which to regroup and respond to IBM's new challenge, he says.

## Banking on a high-tech expert

bank is offering to other institutions. (Tamar is the name of the river separating Devon and Cornwall.) The other is the bank's participation in the Link consortium, the ATM (automatic teller machine) sharing network of banks and building societies.

It is Tamar that has been licensed to Citibank. It enables the user to keep a composite picture of a customer's relations with a bank: the state of his account, his borrowings and other dealings, like insurance, and personal details. This is seen to be a useful tool for marketing other financial services.

Armed with it, Western Trust is trying to set up agency banking with retailers which will enable them to offer financial services, such as loans, and act as an outlet for Western Trust's banking services.

This is done through a terminal installed in the agent's premises and linked directly to Western Trust's computers in

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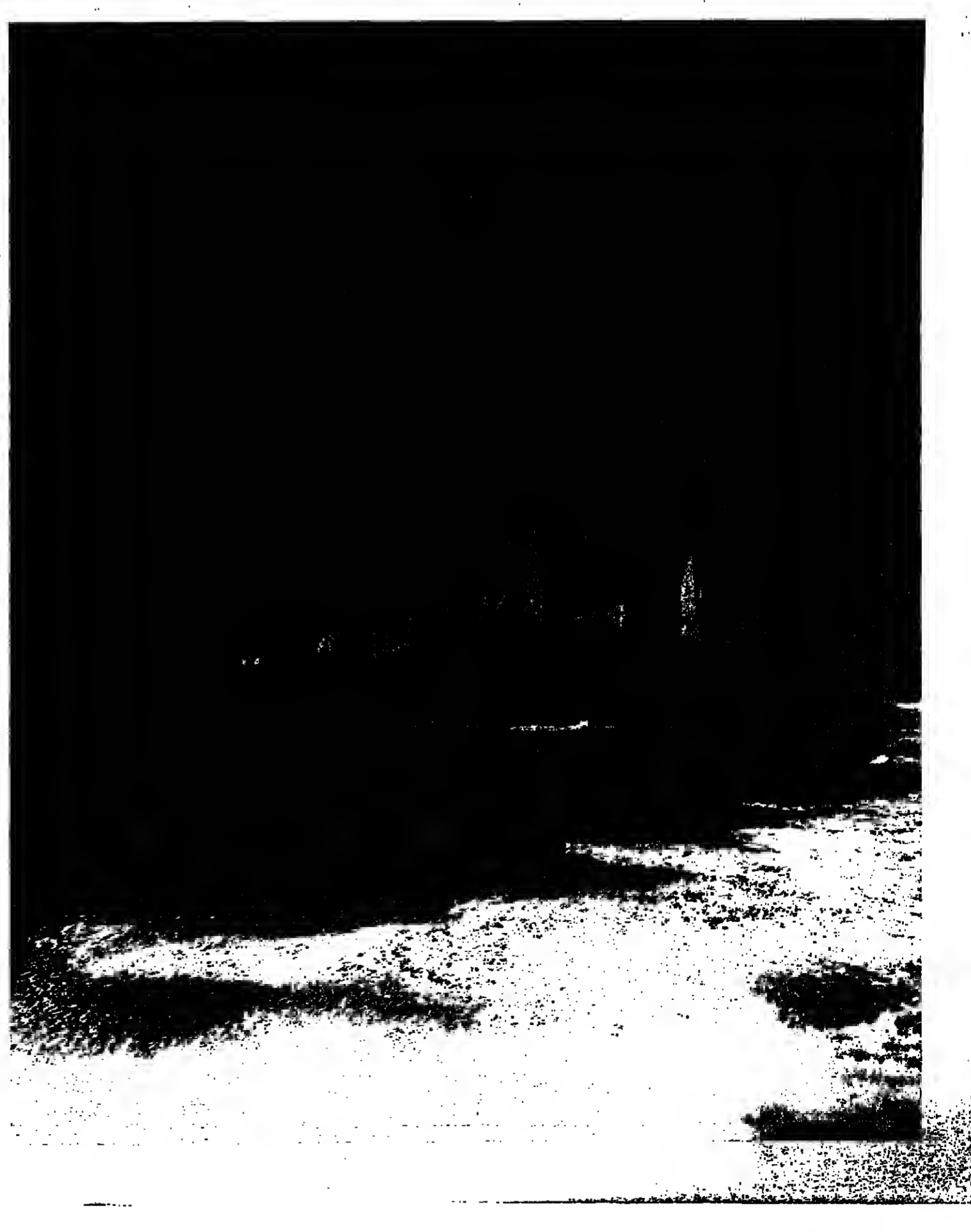
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UK NEWS

Transport Secretary who has gained ground

IN A MORE settled political climate, Mr Nicholas Ridley, the Transport Secretary, might have been rather more in the news this week. He did, after all, announce to the House of Commons the agreement on the Channel tunnel, something which is likely to be around long after present turbulence has died down.

Malcolm Rutherford talks to Mr Nicholas Ridley (below)



Mr Ridley is an odd figure in Mrs Thatcher's Cabinet. He was a rebel against Mr Edward Heath when the previous Tory Government turned interventionist about industry in 1972-74. He is widely credited with having advised Mrs Thatcher on how to deal with unruly trades unions during the period of Conservative opposition. But he was given only a junior job at the Foreign Office when the Tories returned in 1979. Recently he has gone from strength to strength.

The other part of the philosophy is based on the deliberate creation of doubt. If you are in a complex negotiation, Mr Ridley says, you must first persuade all the protagonists that it is likely to fail. It means suggesting confusion in your own mind as well. You tell everyone that they have lost, and then you ask whether it might be possible to rescue something from the wreck. In that way you can establish the bottom line of all the parties involved. Then you can start negotiating again, this time seriously.

Energy efficiency industry sets £1bn business target

BY MAURICE SAMUELSON

REPRESENTATIVES of Britain's fast growing energy efficiency industry forecast yesterday that within 10 years £1bn worth of annual energy spending in public buildings and factories would be administered by specialist contractors. The target was announced in London when nine competing energy management concerns, led by subsidiaries of British Petroleum and Shell UK, said they were to co-operate to overcome resistance to energy efficiency in the private and public sectors.

Tax relief on N. Sea closures 'insufficient'

BY MAX WILKINSON

THE PROVISION for the running down and abandonment of North Sea oil fields are inequitable and need to be thoroughly revised, according to a study from Aberdeen University, published today. The results, published in the first issue of the Journal of Oil and Gas Accountancy, a magazine aimed at accountants in the European industry, suggest that the relief for companies abandoning fields need to be more closely related to the taxes paid by their operators.

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Table with columns for bond numbers and amounts. Includes a list of bond numbers from 00018 to 02126 and their corresponding amounts.

Bonds surrendered for redemption should have attached all unreturned coupons pertaining thereto. Coupons due February 15, 1986 should be detached and collected in the usual manner. Principal amount outstanding: US\$ 2,750,000

Luxembourg, January 24, 1986 The Principal Paying Agent KREDITBANK S.A. Luxembourgise.

DKB ECONOMIC REPORT January 1986: Vol. 15, No. 1 Japan's economy for 1986 shifting to domestic demand-led growth by the appreciated yen. Includes sections on Household sector, Environment, Exports to slow down, and Transition in Growth Factors.



UK NEWS

Strike nears as Murdoch print talks collapse

BY JOHN LLOYD AND HELEN HAGUE

STRIKE ACTION at News International (NI) newspapers in the UK now seems inevitable after the breakdown of talks yesterday between Mr Rupert Murdoch, the group's chairman, and four print unions.

New paper planned

BY RAYMOND SNOODY

ANOTHER new Sunday newspaper, with the working title of the Sunday Globe, is being planned for launch in the spring. The project is being put together by Mr Nicholas Leonard, a director and London editor of the Irish Independent Newspaper Group.

Britain, France plan high-speed trains

BY ANDREW FISHER, TRANSPORT CORRESPONDENT

A NEW GENERATION of high-speed trains that are twice the length of those now used in the UK will be jointly developed by Britain and France for services through the proposed Channel tunnel in the 1990s.

Metal Box and Alcoa in plastics venture

BY TONY JACKSON IN LONDON AND TERRY DODSWORTH IN NEW YORK

METAL BOX, the UK packaging group, is to set up a \$100m (£72m) joint venture in the US with Alcoa, the US aluminium producer, to make plastic food packaging.

Austin Rover spends £100m on computers

BY JOHN GRIFFITHS

AUSTIN ROVER said yesterday that it had spent more than £100m since 1982 on computer-integrated engineering technology and claimed that it now had European leadership in the application of computers to vehicle design.

Unions at Ford back new pay deal

By David Thomas, Labour Staff

FORD UNION leaders yesterday decided to recommend acceptance of improvements to the company's pay and productivity offer, which it had described as "final" before Christmas.

Ford increased its pay offer by 2½ percentage points and dropped its insistence that individual workers must sign their acceptance of the company's productivity proposals.

Mr Mick Murphy, chairman of the union negotiating side, called the improved offer "a major climb-down" by the company.

The unions attributed the improved offer to the two to one vote for industrial action by Ford's manual workers in a secret ballot under the terms of the 1984 Trade Union Act. Previous offers were voted on by Ford's workers at mass meetings.

The new offer gives increases of between 18 and 19 per cent over two years.

The first year will see a 5½ per cent increase on basic rates plus an extra 2 per cent for about 10,000 assembly line workers, with an extra 4 per cent all round on offer for radical changes in working practices.

In the second year there will be a further 8 per cent rise all round. Mr Paul Roots, Ford industrial relations director, said: "The secret ballot put the unions in a much stronger position, because they were completely free of the usual criticisms such as rigging ballots."

The unions and the company are to hold further discussions about Ford's radical proposals for removing demarcations and improving productivity.

Coats Patons' shares rise after confirmation of bid approach

BY ANTHONY MORETON

COATS PATONS' share price rose by 53p to 201p in London yesterday after an approach from an unnamed suitor.

The Glasgow-based company is the second largest vertically integrated fibres-to-clothes textile concern in the UK, with a turnover in 1984 of £1.08bn. It confirmed it had received an approach but dampened speculation that an announcement would be made before early next week.

Morgan Grenfell, its merchant bank, last night confirmed the approach because, it said, "it was necessary to say something following the share price movement to prevent a false market happening."

It would give no clue to the identity of the suitor other than to say that the approach was "more of a marriage" than a bid. Indeed, nearer a marriage, it stated that there was a commonality of interest at management level.

This suggests that the approach is from within the industry rather than outside. Vantona Viyella, Toofal and Illingworth Morris all denied having made a bid or being associated with a bid. But Courtaulds, the world's largest integrated textiles-to-clothes concern, refused to comment.

"We never make any comments on market rumours," the company said. Within the City of London the news of the approach did not come as a surprise.

"Coats has been the most likely target for a bid in the textiles sector for some time," de Zoete & Bevan commented.

Although Coats Patons is best-known for its threads and sewing products, it has a widely diversified international business that could attract a counter-bid from a purely national producer anxious to expand overseas.

Its most famous retail names are Jaeger and Country Casuals in clothing, Byford in knitwear, Ladybird in leisurewear and Patons and J & P Coats in threads. Last month Miss Jean Muir, one of the UK's most famous fashion designers, sold a controlling interest in her business to the concern. It is thought Coats wants to develop the Jean Muir name in opposition to Laura Ashley.

Two thirds of Coats' turnover originates abroad, with particularly strong markets in continental Europe and North America. The great profit spinner, though, is Latin America where a turnover of £24.7m in 1984 produced a profit of £3.3m, a quarter of the total profit for the year of £125.5m.

At last night's price of 201p, Coats is capitalised at £57m.

University chiefs demand reform of funding policies

BY MICHAEL DIXON, EDUCATION CORRESPONDENT

UNIVERSITIES could not be satisfactorily maintained, let alone made more effective, without fundamental changes in the funding policies of the next decade, the committee of vice chancellors and principals said yesterday in its reply to the Government's Green Paper (discussion document) on higher education which was published in July.

The higher education leaders urged immediate changes in the policy outlined by Sir Keith Joseph, the Education Secretary, and called on him to:

● Keep the number of British-domiciled university students at least at the present 250,000-plus instead of reducing it year by year until 1995 in line with the declining 18-year-old population.

● Guarantee the universities an annual grant, to cover their operational costs, of a minimum of the current level of £1.4bn in real terms instead of cutting it by 10 per cent over the next five years.

● Provide increases of at least a quarter in the additional grants of £30.4m for research and other equipment and £25m for buildings.

● Raise government investment in long-term research - most of which is done in universities - in line with ministers' projections of a 20 to 25 per cent growth in gross domestic product over the next decade.

● Change the tax laws to encourage organisations and individuals to give money to higher education and to make fees for vocational training courses an allowable tax expense.

● Reform the student-financing system so that young people again have enough money to live on while studying, if necessary by introducing repayable loans in addition to grants.

A further increase in links with companies to improve the transfer of technology from academic laboratories to industry was required, as were links between universities to avoid duplication. Company managers would have to be more willing to take the initiative in collaboration to improve employees' training.

Cuts in spending on research had led to a reduction of about a tenth in the number of British-domiciled students taking master and doctorate degrees.

There was a need for changes in the universities' systems for employing academic staff.

The Future of the Universities, committee of vice chancellors and principals, 29 Tavistock Sq., London WC1H 9EZ, CI.

Move to change inner-city aid

BY KEVIN BROWN

THE GOVERNMENT is planning to take powers allowing it to deprive some Labour-run local authorities of control over grants paid to private sector developers in the inner cities.

Mr Kenneth Baker, the Environment Secretary, has added the new powers to the Housing and Planning Bill due to be published today. The bill also gives the Government power to direct councils to abolish virtually all planning controls in specific areas.

Ministers say the bill is intended as a two-sided attack on delays in inner city development projects caused by "obstructive" local authorities.

Mrs Margaret Thatcher, Prime Minister, is understood to have given enthusiastic support to the bill, which will have its second reading in the House of Commons in two weeks' time and should be law by the summer.

The bill will introduce a system of urban regeneration grants under which developers will be able to apply directly to ministers for subsidies.

Grants will be for up to 25 per cent on the capital cost of projects, but the emphasis will be on large-scale redevelopment of whole areas rather than on single buildings.

The provision of jobs and housing will be an important criteria for eligibility. The scheme will be initially funded from the Urban Programme, for which the Environment Department has been allocated £220m this year.

If grants start in the summer, as anticipated, this will inevitably mean that money will have to be diverted from some of the more marginal Urban Programme projects.

Ministers are confident, however, that new money will be allocated by the Treasury for 1987-88.

The scheme will allow ministers to bypass authorities that are said to have been less than enthusiastic in channelling public money to private developers.

The main "culprits" are said to be Manchester, Liverpool and some of the London boroughs.

Molins to transfer production

MOLINS, the cigarette-making machinery manufacturer, yesterday announced that it intended to close its manufacturing plant in Deptford, South London and transfer operations to its plant in Sandhurst, Buckinghamshire, with a new group headquarters at Milton Keynes, north-west of London, writes Lisa Wood.

The Deptford plant, employing more than 400 people, makes packaging machinery. Molins stressed yesterday that it was in discussions with unions and as many jobs as possible would be transferred to its other plants. The move would be over two years.

Last December a £49.8m management buy-out failed at Molins. The buy-out move was largely supported by BAT Industries, which holds a 29.9 per cent stake in the business, when it indicated that it did not view the shareholding as part of its long-term interests.

Molins, which sells more than 90 per cent of its products abroad to private and state-owned cigarette makers, has been on a declining profit trend in recent years. In 1984 it recorded pre-tax profits of £5m compared with £12m in 1978.

Over the last 18 months Molins, under strong competitive pressure in its world markets, has closed a production plant in Northern Ireland and made nearly 1,000 of its 3,750 workforce redundant.

TALKS aimed at settling the teachers' pay dispute in England and Wales resume today at the conciliation service Acas, with the employers expected to improve their pay offer but on strict conditions.

The employers are likely to say they will go beyond the last offer of 8.5 per cent this year, or 7.5 per cent in a full year, only if there is a guaranteed end to disruptive action in schools and a commitment by the unions to enter negotiations on salary restructuring.

HAWKEE SIDDELEY has denied reports that the Ministry of Defence put pressure on it to bid for the management of the big naval dockyard at Devonport, south-west England. About 2,000 engineering workers walked out in protest at the privatisation plans, as representatives of Hawkee and the US-owned Foster Wheeler group visited the yard.

It has also been announced that Sir Arnold Hall, Hawkee chairman and one of the leading industrialists of the post-war period, is to retire in May.

A PROFESSIONAL fraud investigator has been recruited by the Government's Export Credits Guarantee Department (ECGD) to work in a newly created internal "fraud squad" aimed at deterring fraud by ECGD staff and outsiders and at launching inquiries into specific suspected cases of fraud or malpractice.

A SPECIAL delegates conference of the Civil and Public Services Association, the biggest Civil Service union, yesterday voted to reject the Government's offer of a pay determination system for civil servants and to prepare for an all-out national strike by the end of April.

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UK NEWS—PARLIAMENT and POLITICS

Full text of the Prime Minister's statement to the Commons

MRS MARGARET THATCHER, the Prime Minister, made the following statement to the House of Commons yesterday: With permission, Mr Speaker, I wish to make a statement on the outcome of the inquiry into the disclosure of certain information in my Honourable and Learned Friend the Solicitor General's letter of January 6.

As the House knows, the chairman of Westland, Sir John Cuckney wrote to me on December 30, 1985 asking whether Westland would no longer be considered a European company by the Government if a minority shareholding in the company were held by a major international group from a Nato country outside Europe.

My Right Honourable Friend the Secretary of State for Defence replied to a letter of the same date from Mr Horne of Lloyds Merchant Bank asking him a number of questions, covering some of the same ground as my own reply to Sir John Cuckney. The texts of the letters became public that same day.

That being so, it was a matter of duty that it should be made known publicly that there were thought to be material inaccuracies which needed to be corrected in my Right Honourable Friend the Member for Henley's (Mr Heseltine) letter of January 3, which as the House will recall had already been made public.

Moreover, it was urgent that it should become public knowledge before 4.00 pm that afternoon, January 6, when Sir John Cuckney was due to hold a press conference to announce the Westland board's recommendation to shareholders of a revised proposal from the United Technologies Corporation/Fiat consortium.

These considerations were very much in the mind of my Right Honourable and Learned Friend the Secretary of State for Trade and Industry when the copy of the Solicitor General's letter was brought to his attention at about 1.30 that afternoon of January 6.

He took the view that the fact that the Solicitor General had written to the then Secretary of State for Defence and the opinion he had expressed should be brought into the public domain as soon as possible.

Kinnock leads assault on Dunsinane

LABOUR LEADER Neil Kinnock cast aside the Shakespearean analogy when Mrs Thatcher had finished her extraordinary statement to the House of Commons.

Appropriately enough, he took his text from Macbeth, that dark work which is reputed to bring bad luck on those who stare it.

The Opposition parties and some Tory MPs listened with scornful incredulity to the Prime Minister's account of how No 10 and the Department of Trade and Industry had authorised the leak of the Solicitor General's letter on Westland without her knowledge.

From the way the House greeted the latest bizarre episode, it was evident that the Westland drama, which has had strong elements of farce, was taking a grim turn towards Shakespearean tragedy.

The shrewd, shabby and sordid flow through an atmosphere thick with intrigue and suspicion.

Mr Kinnock encapsulated the feelings of many when he asked, "Why was it necessary to hold an inquiry when everyone in the drama seemed to know of the decision to leak the letter?"

The only comparable precedent, he believed, was the way in which Macbeth and then ordered a spurious search for the assassins in order to deflect suspicion from himself.

Facing damaging questions from the Opposition and from several Tories, Mrs Thatcher did not meet the most harrowing 50-minute ordeal of her premiership.

We had been led to believe that she would put up a robust performance and come out "with guns blazing". Far from it. For much of the time Mrs Thatcher was forced on to the defensive and seemed hesitant and unsure of herself.

Her defence against her accusers could be summed up in the words of Macbeth: "Thou canst not say I did it; shake thy yory locks at me."



Mrs Margaret Thatcher: Information had to go into public domain.

Mr Speaker, my Right Honourable and Learned Friend the Secretary of State for Trade and Industry was in my judgment right in thinking that it was important that the possible existence of material inaccuracies in the then Secretary of State for Defence's letter of January 3 should become a matter of public knowledge, if possible before Sir John Cuckney's press conference at 4.00 pm that day.

Insofar as what my office said to the Department of Trade and Industry was in my judgment that they had the authority of their Secretary of State and cover from my office for proceeding.

An official of the department accordingly told a representative of the Press Association of my Honourable and Learned Friend the Solicitor General's letter and material elements of what it said. The company was also informed. The information was on the Press Association tapes at 3.30 pm.



The Head of the Civil Service did indeed receive full cooperation not only from the official but from all concerned.

My Right Honourable and Learned Friend tells me that he is satisfied that in no way interfered with the course of justice: on the facts as disclosed in the inquiry, there would have been no question of proceeding against the official concerned.

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Tory MPs stunned as crisis over Westland deepens

BY IVOR OWEN

TORY BACKBENCHERS were reduced to stunned silence in the Commons yesterday as an admission by Mrs Margaret Thatcher, the Prime Minister, that Mr Leon Brittan, the Trade and Industry Secretary, and officials at 10 Downing Street were involved in "leaking" part of a letter written by Sir Patrick Mayhew, the Solicitor General, plunged the Government deeper into the crisis over the Westland affair.

Her disclosure of this bizarre outcome of the inquiry into the source of the leak—made to the Press Association in an attempt to outmanoeuvre Mr Michael Heseltine before he resigned as Defence Secretary—brought a stinging condemnation from Mr Neil Kinnock, the Labour leader, and some barbed questions from the Government back benches.

To a roar of approval from his supporters, Mr Kinnock told the Prime Minister that her "guilty" part in the attempt to subvert Mr Heseltine dishonestly and covertly would remain with her as an ineradicable stain as long as she occupied 10 Downing Street.

In a scathing denunciation of the entire episode, he said it was the action of a Government which was "not just rotten to the core but rotten from the core."

Mr Kinnock, who will return to the attack when he launches a three-hour emergency debate in the Commons on Monday, contended that the only precedent for the "contrived insincerity" marked by the appointment of the inquiry was when "Macbeth so fiercely looked round for the murderers of Duncan."

Mr David Steel, the Liberal leader, protested that the inquiry had been a "nine-day charade" and caustically told the Prime Minister that, had she been living in the real world, her action in instituting it would have led to her being charged with "wasting police time."

The angry protests on the Opposition benches were momentarily stilled when Mr Alex Fletcher (C), Edinburgh Central, the former Corporate and Consumer Affairs Minister, heavily underlined the fact



Mr Alex Fletcher: Has statement enhanced integrity of Government? Mr Neil Kinnock Government rotten from the core

that the main consideration in the minds of many Tory backbenchers was the integrity of the Government.

He asked the Prime Minister: "Are you satisfied that the statement you have made has enhanced the integrity of your Government?"

The Prime Minister replied that she had set up the inquiry and departed from the practice normally followed on such occasions by making a full report to the House at the first opportunity.

In response to a series of probing questions, Mrs Thatcher explained that, because the Solicitor General's letter had been intended to correct "material inaccuracies" contained in a letter written by Sir Patrick Mayhew to the bank advising the European consortium seeking to acquire a stake in Westland "commercially sensitive" factors had governed the timing of the arrangements made to bring it to the attention of the public.

Her insistence that she had not been aware at the time of the arrangements for implementing the "leak" decision, authorised by Mr Brittan and

carried out after officials of the Department of Trade and Industry had consulted members of her Downing Street staff, was greeted with derisive laughter and shouts of disbelief by many of the Opposition benches.

Dr David Owen, leader of the Social Democrats, demanded to know when the Prime Minister's Office first informed her that it had given "cover" to Mr Brittan's decision to authorise the leak.

He maintained that the Prime Minister should have informed the House of this fact at the time she gave "cover" to Mr Brittan's decision to authorise the leak.

Pressed by Mr Michael Foot, the former Labour leader, who claimed that Mrs Thatcher must have known all the facts at the time she ordered the inquiry, she declared: "You are not correct. I did not know all the

facts. That was why the inquiry was set up."

Mr Merilyn Rees (Lab, Morley and South Leeds) added to the discomfiture of the Prime Minister by Brittan's comment: "All I know is that if I, as Home Secretary, had set up an inquiry and it came back and said 'you authorised it, I would have resigned.'"

Mrs Thatcher repeated that she had not been consulted about the arrangements for bringing the Solicitor General's letter into the public domain and, amid protests from the Labour benches, urged Mr Rees to "have the decency to accept that statement."

She admitted: "I wish the manner of the disclosure had been different and more orthodox."

The Prime Minister said one alternative to the leak would have been a "straight statement" but things were not easy at the time. "Also the people concerned—I say again—was not considering a three-year guarantee given to the nearby Ravensraig integrated steelworks."

The 'normal' limits of leaking are breached

Peter Riddell explains why the leak of the Mayhew letter matters

"I BRIEF, you leak" has always been the Whitehall quip as departments loyally for position on behalf of their ministers.

Yet there is something out of the ordinary about the row over the letter from Sir Patrick Mayhew, the Solicitor General, to Mr Michael Heseltine, the former Defence Secretary, which was selectively "leaked" or "disclosed" to the Press Association by Miss Colette Rowe, the head of information at the Department of Trade and Industry.

It is normal practice for information officers in Whitehall to brief on their department's viewpoint. This is often on an unattributable basis.

Yet the information is given on condition that the sources is not identified specifically.

Technically, the disclosure of background information on departmental attitudes can be seen as a breach of the Official Secrets Act. However, the procedure is that information officers and other civil servants are regarded as being authorised by their ministers to release information.

Indeed, it is an open secret that officials of both the Ministry of Defence and the DTI have been briefing heavily throughout the Westland affair, countering each other's claims on behalf of their ministers.

This may have been against the spirit of the Cabinet's agreement in 1973 that ministers should not take sides, but it was unusual only in degree, not in kind, from normal practice.

Ulster voters brave the weather

BY HUGH CARNegie in BELFAST

NORTHERN IRELAND voters braved foul weather to go to the polls in 15 of the province's 17 parliamentary constituencies yesterday to deliver their verdict on the Unionist campaign against the Anglo-Irish agreement.

According to usual practice in the province, counting does not start until this morning, with results expected this afternoon.

The by-elections were caused by the resignation of the 15 Unionist MPs, who said the vote would demonstrate the overwhelming rejection by the Unionist majority of the Anglo-Irish accord which gave Dublin a formal role in Northern affairs for the first time.

Unionist hopes of raising from 420,000 to 500,000 their combined vote in the 15 seats at the 1983 general election were jeopardised by bitterly cold winds, rain and sleet which lashed the province yesterday. But the polls were open until 10 pm, and reports indicated that the Unionists would win a hefty turnout.

The main focus on the nationalist side is on whether Mr Seamus Mallon, deputy leader of the main party in favour of the agreement, the Social Democratic and Labour Party, can unseat Mr Jim Nicholson of the Official Unionist Party in Newry and Armagh.

His chances depend on a high turnout among the nationalist majority in the seat and on whether he can take votes away from Sinn Fein.

The other parties in the contest are the non-sectarian Alliance Party, fighting five seats, and the left-wing Workers Party, fighting nine. In four otherwise uncontested seats, the Unionists have put up dummy candidates.

Business next week in both Houses

COMMONS

Monday: Emergency debate on leaked Westland letter. Airports bill, second reading.

Tuesday: Social Security Bill, second reading. London Regional Transport (Levy) Order.

Wednesday: Liberate debate (subject to be announced). Debate on Commons (Services) Committee report on research assistants.

Thursday: Debate on Army. Friday: Backbench debate Children and Young Persons (Amendment) Bill, Protection of Military Remains Bill; Tobacco Products (Sales Restriction) Bill.

LORDS

Monday: Debates on science and technology, and Europe. Tuesday: Australia Bill, and Education (Amendment) Bill, third reading. Salmon Bill ad Incest and Related Offences (Scotland) Bill, committee.

Wednesday: Debate on housing. Short debate on energy research. Thursday: Salmon Bill, committee.

PM announces plan for visit to Israel

THE PRIME MINISTER is hoping to visit Israel this year, she announced in the Commons yesterday at Question Time.

The visit, expected in the next six months, follows her talks yesterday with Mr Shimon Peres, the Israeli Prime Minister.

Mrs Thatcher said the talks with Mr Peres "were not only enjoyable, they were very interesting and constructive and I hope to visit Israel later this year."

Mr Andrew Faulds (Lab, Wexley East) asked if she was "impressed upon Mr Peres the need for Israel to accept the validity of the Palestine Liberation Organisation in any negotiations towards a peace treaty in the Middle East."

Thatcher refuses to be drawn on exchange rate

BY KEVIN BROWN

MRS MARGARET THATCHER, the Prime Minister, refused to say in the Commons yesterday whether the Government had decided to allow sterling to take the strain of weakness in the oil market.

Mrs Thatcher was asked by Mr Neil Kinnock, Leader of the Opposition, "whether you are currently maintaining the Government's policy of allowing the pound to find its own level."

Mr Kinnock pressed the Prime Minister to spell out how long a rise in interest rates could be avoided.

Plea to save Gartcosh turned down

By Kevin Brown

A LABOUR attack on the Government's refusal to step in to prevent the closure of the Gartcosh steelworks in Lanarkshire was defeated by 61 votes in the Commons last night.

MPs voted 258-197 against an Opposition motion calling on the Government to save Gartcosh by extending a three-year guarantee given to the nearby Ravensraig integrated steelworks.

A government amendment stressing the importance of retaining BSC to profitability was approved without a division.

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Advertisement for SIMON products, including a can of SIMON paint and a SIMON brush.

THE PROPERTY MARKET BY MICHAEL CASSELL

Pension funds put more into property

ENCOURAGED by evidence of the insurance companies was falling dramatically. Long-term funds put just £135m into property investment during the third quarter, £220m less than in the previous three months and the lowest total since the start of 1984. Short-term funds recorded a net disinvestment of £16m, against a positive commitment of £20m in the preceding quarter. Some of the reduction may be attributed to continuing doubts among a number of major institutional investors about the future performance prospects of the property sector, while several unit-linked funds in particular continue to reduce the property element of their investment portfolios. However, will the fluctuations between various investors, the overall pattern of spending remained fairly stable. Total institutional spending on property during the third quarter of 1985—including investment trusts, unit trusts and a variety of other small buyers—reached £453m, just £6m lower than in the previous three months. For the first nine months of 1985, spending totalled £1,277m against £1,250m in the same period of 1984. Most estimates suggest that investment for the year as a whole will have reached around £1.7bn against nearly £1.5bn in 1984. A further modest improvement is likely in 1986. But while their interest in the property sector was being stepped up, net spending by

Docks development plan stepped up

FREED from the legislative straightjacket which constrained countless acres of unwanted docklands to continuing dereliction, Associated British Ports is rapidly emerging as an active player in the UK property market. ABP, a wholly-owned subsidiary of publicly-quoted Associated British Ports Holdings, is now involved in a number of major development projects around the UK's coastline, designed to make use of surplus land assets bequeathed to it after privatisation of the ports industry. Over the next decade, up to 1,000 acres of unwanted land could be given new commercial uses in a programme aimed at providing a growing source of profit for ABP, set up under the Transport Act 1961 to run 19 ports previously controlled by the British Transport Docks Board. The activities of the old board—which controlled around 7,500 acres of operational and surplus land at the time of its final demise at the end of 1982—were restricted to port-related business. But the 1981 Act granted new freedoms to ABP and it has since wasted little time in diversifying into property development. Mr Keith Stuart, chairman of ABP, says: "Previously, the ports' interest in property was forcibly confined to leasing out any space surplus to operational requirements. There was a rental but any unwanted land was given to the local authority. Now, the chains are off and

we aim to make significant profits from property development. In time, they might even equal profits arising from our traditional port business." ABP has several hundred acres of land either subject to development or development proposals and the plan is to try and retain, wherever possible, a share of the created investments. According to Stuart: "We want to avoid a situation in which we are simply selling off our land assets. We do not need or wish to take the money and run. We intend to retain a stake in the future." To face the challenge, ABP has already boosted up its internal property resources while experience at boardroom level includes experienced property men like Maxwell Creasey, the former M&P deputy managing director, and Sir Charles Ball, chairman of Peasehay. But the main thrust of ABP's new development strategy centres on a series of partnerships and joint ventures with names like Rosehaugh and Trafalgar House. Stuart emphasises: "We are seeking to forge alliances with top quality development companies and, so far, we have been very fortunate." Last year, ABP formed a joint development and investment company with Rosehaugh, one of the property sector's current pace-setters, and together they announced plans for a £50m-plus redevelopment of Southampton, to include Princess Alexandra Dock. There are other major plans for revitalising parts of the Southampton complex and ABP is participating in, or actively examining, development opportunities at several of its other ports, including Cardiff, Hull and Grimsby. So far, the Southampton plans are the most ambitious and potentially profitable. Stuart says Rosehaugh were chosen as partners because their proposals were the most imaginative and because of the company's proven financial muscle. Rosehaugh Associated Ports Developments, the joint company, has just won planning consent for the first, five-acre phase of the 65-acre Princess Alexandra project. As the six-year development programme progresses, ABP land will be sold into the jointly-owned company, which will raise outside finance but, at least initially, retain a stake in the completed investment. Still in Southampton, a second marina is to be built at Town Quay, as part of an office, residential and leisure complex to be built on land leased from ABP by Southampton Marina and Town Quay Development, a local development consortium. A short distance away, Southampton Free Trade Zone—an ABP partnership which includes Trafalgar House, Kleinwort Benson and McGregor Cory—is planning a £50m manufacturing "high-tech" and business centre on land adjoining the existing con-

Greycoat in £80m City office plan

GREYCOAT IS paying £20.25m for the freehold of Lutyns House, the 250,000 sq ft office building in Finsbury Circus, City of London. The developer plans a near-£80m refurbishment of the Grade II listed City landmark, which was jointly owned by the National Water Council and British Telecom. Greycoat has emerged as the purchaser following a limited tender held last year and some lengthy negotiations. The plan is to redevelop the building behind its existing facade to provide around 190,000 sq ft net of office floor space. British Telecom will vacate early in 1987. The entire project will cost between £70m-£80m and N. M. Rothschild & Allied Irish Bank are to arrange syndicated bank financing to meet the total cost. James Laux Wootton, Morgan Grenfell Laurie and St Quintin acted for the vendors, Richard Ellis and Bremer Matson Headley advised Greycoat. Prudential Assurance has sold another central London office investment. The group has raised over £5m for the freehold of Alexandra House, Kingsway, from Great Park Land Estates, which intends eventually to redevelop the building. Slough Estates has sold its 70,000 sq ft office development, now underway in central Brussels, to Fensholt, the Belgian pension fund. The building is already pre-let to the European parliament and will be completed in mid-1987. Abhey National Building Society Pension Fund has bought a 20,000 sq ft office development site at Bath Road, Heathrow, from Barclays Bank, Richard Ellis and Elliott Son & Boyton will let the building, which will have a completed investment value of about £6.5m. Ellis were asking over £2m for the site. London & Edinburgh Trust has handed over 42 Rue d'Anjou, Paris, to the Retail Chemists Pension Fund. The building forms part of a package of three adjoining properties purchased in partnership with Halfour Beatty and Capital & Continental—run by UK property expatriates Chris Holloway and Michael Hawkes—for £25m. The first building was sold for £11m and 42 Rue d'Anjou has been refurbished and sold to the Chemists for £18.75m. A tenant will be expected to pay a new record rent of FFY 3,000 a sq metre, providing a record 6 per cent yield for a speculative office building in central Paris. LET and partners are now refurbishing the third building, on Boulevard Malesherbes.

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سكنا من الأهل

THE ARTS



Amelia Shankley plays the young Alice in "Dreamchild" Stallone in "Rocky IV"

Cinema/Nigel Andrews

Punchdrunk and wonderstruck

Rocky IV directed by Sylvester Stallone
Dreamchild directed by Gavin Millar
Before Stonewall directed by Greta Schiller

Sylvester Stallone is fast becoming Hollywood's one-man patriotism industry. Fresh from winning the Second Vietnam War in Rambo, he is back in the fourth Rocky, turning the pluggish pugilist into a front-line Cold Warrior. East meets West in the boxing ring, and the resulting film may be dangerous for your mental health but is oddly irresistible in its juggernaut impact as entertainment.

Whatever patent formula Mr Stallone has found for whipping up audiences' emotions, it is clearly worth purchasing spaces in it. Rocky IV has already taken 100 million dollars at the box office and is an entertainment machine of terrifying efficiency. The secret is partly the take-away political tub-thumping, which cunningly modulates from patriotism to detente in the final reel, and partly Stallone's tendency to swap linear narrative for hard-punching montage sequences: those furies of quick-cut action in which days or years are covered in minutes. One sequence was us a bouquet of flashbacks over Rocky's past career, another a rock-scored marathon of cross-cuts between Rocky's training sessions at a snowbound Russian dacha and Drago's hi-tech gym where diagnostic machines register every muscle twitch.

But gradually the film, like its heroine, emancipates itself. The cardboard Yanks assemble themselves as justified cut-outs in a fairy-tale; a subplot of touching romance begins between Alice, young companion (Nicola Copner) and an ex-copier turned self-made agent (Peter Gallagher) who steers Alice into money-winning broadcasts and endorsements; and the Waldorf Astoria Hotel swarms memories, visions, flashbacks and Mad Hatter's tea parties (creatures splendidly created by puppeteer Jim Henson) as if there were no tomorrow.

And there is no fulfilling tomorrow for each of us, suggest Potter and Millar, without a full emotional acceptance of the past. This theme is seamlessly embroidered into the story up to and including its exquisitely touching double denouement: Dodgson (Ian Holm) unforgivingly mocked and then forgivingly kissed by the young Alice (Amelia Shankley) at a picnic in pompous debate on a rocky promontory; while the elderly Alice Hargreaves sees

Some films begin by tacking madly between the tired and the inspired. Dreamchild, a meditation on the real story behind Alice in Wonderland, written by Dennis Potter and directed by Gavin Millar, begins with sheer magic. The camera swirls up a shingled studio beach under a stormy skydrop to catch the Cyprian and Mickey Tombeaux de Couperin Suite as Wednesday evening's by the Philharmonia under Alain Lombard. If the rest of the

Les Grands Maitres français/Festival Hall

Max Loppert

The Royal Philharmonic Society has proposed, in five 1986 Festival Hall concerts, a series of programmes of French music under a rather grand-sounding title, and for which some rather inflated claims are being made. Most of the music being performed is, after all, familiar, everyday fare (only the British premieres of works by Messiaen and Jean-Michel Damase provide exceptional novelty). But concerts of French music are always worthwhile, under any title or theme, when given with as much vigour as was Wednesday evening's by the Philharmonia under Alain Lombard. If the rest of the

series follows suit, the venture will have proved its value indeed. Mr Lombard, a leading French conductor of the middle generation perhaps better known here for records than for live performances, had prepared a programme of Berlioz, Ravel, Poulenc and Franck, and was able thereby to rouse this orchestra's spirits to an unfamiliarly high and heaven-pitch. The Berlioz Roman Carnival Overture was set off with great verve, the Ravel Tombeaux de Couperin Suite was sounded with full-blooded attack and some plucky rustic dance rhythms (a notably strong

point in the "Forlane"). To both composers the approach was forthright, frank, uncluttered, rather plain; there was little suggestion of subtle shades and fine nuances of wide dynamic range or special refinements of timbre; memory of Boulez's exquisitely light, floated Tombeaux de Couperin came particularly to point strokes to the areas untouched in Mr Lombard's.

Yet the encouragement of such brave playing is a virtue not wisely scorned in the current run of routine South Bank concerts. It was shown again after the interval, in an account of Franck's Symphony

Continued from Page 12
Glad (Lyric): Unconvincing stage revival of Lerner and Loewe's film follow-up to My Fair Lady, Beryl Reid rising improbably above the material, Jean-Pierre Aronand and Stan Phillips lending naive conventional support. John Dexter directs, Jocelyn Herbert designs. (437 3896).

Lesson (Astoria): A not too critical celebration of the life and music of John Lennon that is enjoyable especially for the musical resourcefulness of the cast and Mark McCann's look-and-sound-ideas. (754 027).

Are You Loosening Tonight? (Phonia): More musical biography with Alan Bleasdale's Elvis Presley show using flashbacks and excellent live recreations of the rock and roll hits to explain how Martin Shaw's King in crushed velvet jumpsuit has remained this pretty past. Exploitative, but not strictly for tourists. (832 2294).

Les Misérables (Palace): Notably well sung and spectacularly produced rock opera from the Mickleby and Cato team of Trevor Nunn, designer John Napier and lighting man David Hersey. Colin Wilkinson superb as Jean Valjean. A melodramatic distillation of Hugo, and some the worse for that. The French score is roughly melodic, with serviceable new lyrics from Herbert Kretzmer. (437 6834).

Camille (Comedy): Pam Gems's re-write gives Marguerite Gardier a child for whose future security she exchanges her own frail health and love. Don Daniels's studio BSC production does not transfer that well, but Francis Barber is an actress to watch. More coughing on stage than in the stalls, for a change. (930 2378).

Il trovatore/Theatre Royal, Glasgow

Rodney Milnes

For its first staging of Verdi's sombre "civil war" as symbol of the human condition" masterpiece, Scottish Opera has opted for a joint production with Opera North. Andrei Serban's up-dating to the Spain of the 1930s having been seen in Leeds 18 months ago. Michael Yeargan's permanent set, a bombed-out railway station, is used, but rather less atmospherically lit; the production is by Graham Vick. The outlines are basically the same, thought with rather more gunfire and bloodshed if memory serves, and greater emphasis on infant mortality (which is not inapt given the plot's prehistory). The essential sobriety of the concept, and thus its inescapable impact, remains intact.

At first glance the territory looks familiar from the outposts of plausibly concerned liberalism portrayed by Michael Fryn or Doug Luce. The party to which the exasperated boat fees from his culture-glutted dinner-party is in that new ultra-hip-hop Hampstead, Clapham. These trends, however, are older, needier, more down-market and infinitely more boring than the inhabitants of the customary theatrical NW whatever; and far more turgid than the anguished anything-witty-or-original as Alan Ayckbourn who has commissioned work from the author, Brian Thompson.

saunages, but no, this superannated saloon-bar smirker is intended at face value. His girl-friend is connected with the Arts Council, but in what capacity is not made plain. Recent economic cuts may have increased the Council's intake of chirpily arty vulgararians (it would explain much). And Heather Canning is the most unlikely psycho-therapist to be found outside a TV soap-opera. Tony Selby's aggressively

The Light Rough/Hampstead

Martin Hoyle

remotely engage one's interest or sympathy, though there are hints that Mr Thompson has written the first fogey play with characters 20 years too old (which does not, of course, make them old fogies).

Part of the blame must go to singularly unconvincing casting. William Royland is ludicrously unlikely as the radical golden boy; I expected a dénouement which would reveal him as a travelling sales rep for pork

saunages, but no, this superannated saloon-bar smirker is intended at face value. His girl-friend is connected with the Arts Council, but in what capacity is not made plain. Recent economic cuts may have increased the Council's intake of chirpily arty vulgararians (it would explain much). And Heather Canning is the most unlikely psycho-therapist to be found outside a TV soap-opera. Tony Selby's aggressively



Oliver Ford Davies (left) and Alfred Lynch

London Mozart Players

Andrew Clements

In focussing their current South Bank series on a wider repertory than last season's exclusive diet of Mozart, the London Mozart Players have constructed some attractively mixed programmes. Wednesday evening's in the Elizabeth Hall was for string orchestra, and offered a trio of more or less neoclassical pieces framed by the statutory Mozart (the D major Divertimento K.138) and Chalkovsky's Serenade.

Conducted by Jane Glover, the play-off was generally alert and well integrated. Yet what will pass muster in early Mozart and sound convincing and even imposing in the broader brush strokes of Chalkovsky may still be found wanting in Rouseell and Stravinsky. Rouseell's pugnacious little stormfronts of 1834 needs razor-sharp attack and a gutty, almost raw sound; edges were often blunted here, the textures somewhat bland.

Stephen Bishop-Kovacevich

Dominic Gill

The Barbican's season of Wednesday lunchtime concerts (two or three Wednesdays a month) is a fairly heterogeneous list covering a range of events from orchestra concerts to string quartets to recitals by solo piano, harp or flute. From time to time it offers a platform to new and unfamiliar names (the season's opening concert given by the RPO was conducted by the young prizewinner Sian Edwards); but by and large the emphasis is on the more familiar mainstream

was played by Stephen Bishop-Kovacevich: a Bach Partita for overture, and a main course of Chopin. His Bach (the fourth Partita in D minor) was bright and clean, neatly made—an intelligent, fluent performance. If decidedly low-key compared with the grand and forceful Bach of, for example, Angela Hewitt at the Wigmore last week.

Bishop-Kovacevich gave Chopin's F sharp minor and E flat Nocturnes and a group of three Mazurkas in a spirit of delicate self-consuming—exquisitely cautious, rather beautifully, perhaps just a few more risks would have added a final original spice. The climax of the Barcarolle, arrived at by way of a wistful dream of summer, was set back with a nicely ambiguous melancholy reserve.

Saleroom

A clockwork toy Mercedes open tourer sold for £7,200 yesterday at Christie's sale of toys, games, trains and Dinky toys. The car, dated 1907 and complete with chaftur, was 10 1/2 high and had been expected to sell for between £3,000 and £5,000.

The top lot was an oil painting of St Ives, Cornwall, painted by Edward E. Simmons in 1889, for which a New York dealer paid \$55,000. Its estimated value was between \$7,000 and \$9,000. Antonio Jacobson's oil of The Bremerhaven tanker, painted in 1897, was bought for \$8,580 by a New Jersey dealer.

Rodrigo Festival

The Bournemouth Sinfonietta, sponsored by Citicorp/Citibank, will present a festival devoted to the Valencian-born composer Joaquin Rodrigo on the South Bank from March 3 to March 15.

ance until now. The première will be conducted by Raymond Calvert. In the same concert Joaquin Acburro (piano) will be the soloist in the British première of Rodrigo's Concierto Heroico. On March 6 no fewer than three guitar concertos will share the programme with Respighi. The Concierto de Aranjuez is followed by two British firsts: the Concierto para una fiesta, played by its dedicatee Pepe Romero, and the double Concierto madrigal when he will be joined by his brother Angel.

Awards for small music groups

The Arts Council has awarded grants totalling over £22,000 to eleven groups of musicians, the first to be made under a new project scheme in line with the policy of increased support for chamber music.

The recipients include the Gabrieli Consort and Players (£3,500) to prepare performance material and rehearse the music of Monteverdi's contemporaries; Metanola (£2,550) to develop their repertoire and give two performances at the Almeida Theatre; and Classical Winds (£2,200) to extend their repertoire.

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Friday January 24 1986

It cannot go on like this

THERE IS no point in understatement any more. Mrs Margaret Thatcher's Government is in the midst of a severe political crisis arising from the Westland affair. It is a crisis of confidence in the Prime Minister's authority and her manner of handling government business. Nothing that she has said in the House of Commons yesterday did anything to allay it and indeed since Mr Neil Kinnock, leader of the Labour Party, is seeking an emergency debate the affair is likely to continue for a while yet.

The future of Westland itself was always a relatively small matter and is no longer at the centre of the argument. What has emerged in the last few weeks, however, is a picture of a squabbling cabinet and a Prime Minister who declines to take full responsibility. There is still no sign that the personal feud between ministers is about to stop.

Not one of the principal characters comes out well: neither Michael Heseltine, former Defence Secretary, nor Mr Leon Brittan, Trade and Industry Secretary, and least of all Mrs Thatcher. Mr Heseltine carried his campaign for the European solution to the Westland problem to the very limits of the tolerable. A more decisive Prime Minister would have dismissed him, or at least ensured that he be shut up, before he resigned. Mr Brittan has made mistakes of judgment, particularly in dealing with the House of Commons. Even where his judgement has been correct, he has allowed himself to be over-ruled. For example, it was he who said Mrs Thatcher should make the statement a week last Monday and that the leaked letter from the Solicitor-General should come from No 10 Downing Street, not from the Department of Industry. He is now in a distinctly uncomfortable position.

Mrs Thatcher would never had to have made the statement yesterday if she had realised the implications of the affair from the start. As it was, she dodged questions. Where was she, for instance, on January 6 when the leak was authorised? When was she first told about the manner in which it was done? The questions may not be of the greatest importance now that the damage has been done but it does not look good so

studiously to avoid an answer. Above all, the Prime Minister gave the impression yesterday of seeking to defend herself rather than stand up for her colleagues. The way the leak was done was wrong, she said, but she had not been told about it. She sounded more frightened of Mr Heseltine than loyal to Mr Brittan. It would be entirely understandable if the latter were now tempted to release more of his own version of the affair. It would not be flattering either to Mr Heseltine or to Mrs Thatcher.

That, however, would be to invite further recriminations in an affair that has already been allowed to go on too long and is dragging down the Government's reputation. The recent uncertainties in the markets may have more to do with the oil price, but it can hardly be denied that political instability has become a factor. A government that now has to put up interest rates—even if it may be right to do so—is going to look tarnished: reacting to its own incompetence.

**Personal rivalries**  
What is astonishing is that the old Tory loyalty in times of trouble has so far failed to assert itself. Some attempts have been made to rally the troops from the back benches, but they have been strangely unresponsive. It is almost as if MPs are simply watching a drama unfold and wondering what will happen next. The opposition is utterly justified in making the most of it, as any opposition would.

Mrs Thatcher and the Government can probably recover. A good meeting of the 1922 Committee of backbenchers might help. So would an indication that the Cabinet is willing to work together. Not least there might be a franker acknowledgement that mistakes have been made, that behaviour has been petty, and that personal rivalries have interfered with the running of the government machine. But there is not much time left. A government that becomes labelled as incompetent and ridden with internal divisions does not bounce back overnight, as the Labour Party has shown. Conservative administration in the last years of Harold Macmillan's premiership. It is not as bad as that yet, but it ought not to be anything like as bad as it is. Mrs Thatcher cannot go on like this.

Reshaping of the legal profession

THE BLUEPRINT for the future of the English legal profession presented for discussion by the Law Society last week aims at a unified and not uniform legal service. It should consist of a network of general practitioners and of specialists who could be either solicitors or barristers. Solicitors should be allowed to plead in higher courts now reserved for barristers and barristers should be allowed to have direct contractual relationships with clients without the intermediary of a solicitor. It follows that High Court judges should be selected not only from barristers but also from solicitors.

The legal profession so reshaped would be based on common training of solicitors and barristers. Individual lawyers could leave the determination of their career until after they have gained some experience and shape it in accordance with their talents and with the demand for their services.

Grave mistake

The purely defensive stance adopted by the Bar in response to the solicitors' pressure does not seem very wise. The public respects tradition and cherishes eccentricity, but only within reason. The Bar's pride in the Inns of Court, quaint mores, wigs and even a certain amount of introspective arrogance could well survive, but not the insistence on continuing the monopolistic practices of medieval guilds into the 21st century. By mobilising backbench barristers against any change, by opposing in the Cyril Smith case the appearance of a solicitor in the High Court even on a purely formal occasion, the Bar brought on itself more than the solicitors dared to hope for. Court of Appeal declaration that the Bar has no monopoly of the higher courts. The judges are now contemplating whether they should allow solicitors a greater role.

It would be a grave mistake if only the requirements, jealousies and internal pressures of the two branches of the profession were taken into account in any future change. To succeed, the profession must take into account the changing demands that its services. These are at

present available only to very large companies or to the impecunious, benefiting from legal aid. The legal profession misses out on the middle strata of entrepreneurs who provide dynamism to the economy. The delays and high costs of patent litigation is only one example of how the present system puts the medium and small entrepreneur and innovator at the mercy of those who can afford the exorbitant costs of litigation.

Greater mobility

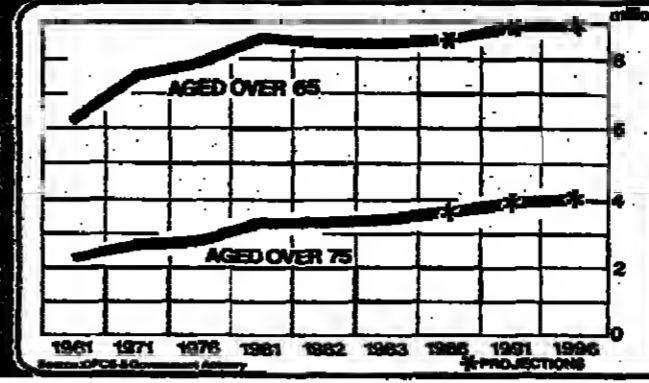
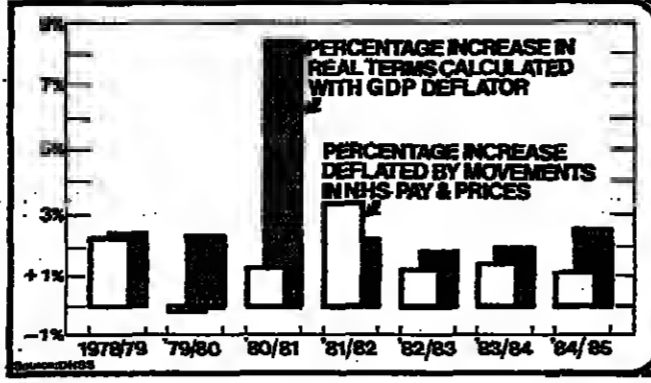
However, the reduction of legal costs, though important, should not be the only aim of change in the legal profession. The removal of the historical and obsolete division of dependence on litigation. It should turn the attention away from legal technicalities and towards the need for common sense solutions. It must be repeated that the main task of a lawyer is to prevent disputes, a task which should be made more rewarding than it is at present.

To prepare them for the role of legal advisers to business, the training of lawyers will have to embrace a wider horizon than it does at present. There should be greater mobility between private practice and employment as in-house lawyers. In-house employed solicitors and barristers should have the same access to courts as practitioners and be subject to the same professional discipline. Judges selected from a unified profession embracing practising solicitors and barristers as well as in-house lawyers would be much closer to the reality of disputes brought before them and indulge less in sterile manipulation of formal concepts. The recruitment of academic lawyers as part-time judges could help to put the day-to-day problems of developing areas of law into perspective and to adjust law faster to new demands.

The legal profession is on a side track. It could and should move into the mainstream. The solicitors seem to have grasped this. It is now on the Bar to follow.

Britain's Health Service

NHS SPENDING INCREASES BUT POPULATION GETS OLDER AND TECHNOLOGY COSTS MORE



Why more money seems less

By Robin Pauley

SINCE the last general election, the Government seems to have gone more than half way to keeping the Labour Party's manifesto promise on the emotive subject of National Health Service spending. Between the financial year which ended in April 1983 and today, total NHS expenditure has risen from £12,497m to £14,156m, a rise of 13.3 per cent, while general inflation as measured by the GDP deflator has risen by 10 per cent. In its manifesto the Labour Party promised that the Government's NHS spending by 3 per cent a year in real terms. If this had been fully met, expenditure on the NHS by the end of the current financial year would be only £415m higher than it is going to be—a significant but not earth-shattering amount.

So why is it that the Prime Minister has to work increasingly hard to convince the country that "The health service is safe in our hands," and why is the Government so often accused of pummeling it not mortally wounding the NHS? The answers require examination of a variety of different statistics within the NHS together with an attempt to set public perceptions and expectations against reality.

Since 1978-79 overall expenditure on the NHS has risen by 20 per cent after allowing for general inflation. This raises the first difficulty because NHS costs are not the same as for the general economy. Although general inflation may be the best guide to the demands the NHS is making on the economy, spending adjusted by NHS movements in pay and prices gives a more accurate picture of resources actually available to the NHS. This means that around 1 percentage point has to be added to average inflation each year to take account of the rapid increase in the number of old people, plus at least another 0.5 per cent to take account of the high levels of modern medical technology costs in the world market.

These two factors alone take the apparent real increase in spending since 1978-79 down from 20 per cent to just over 8 per cent, or barely 1 per cent a year, and even that may be over-estimating the real gain; and 3 per cent more people dealt with in accident and emergency centres, and all in fewer beds and shorter hospital stays: "in short, a more productive use of NHS facilities," says Mr Fowler.

This is not quite how it looks if you are on the waiting list for hospital admission. The waiting list was 730,000 in 1979 and is still 680,000 today, although it has come down from almost 800,000 in 1982. A College of Health analysts shows 68 per cent of urgent cases (as opposed to emergency) cases waiting more than a month and thousands of non-urgent cases waiting more than a year. Nor does the record look too good if the annual percentage changes in actual input volumes around 10 per cent in real terms over the past five years, while spending on in-patient care has risen by only about 1.3 per cent.

The rise between 1978 and 1984 of 1m in the number of in-patients and 3m out-patients implies greater pressure on staff, productivity and efficiency improvements notwithstanding. The total number of NHS staff has risen from 773,000 in 1978 to 816,000 in 1985 but within these figures are felt every year since 1982 (\$29,000) while the demand for services has grown each year.

The number of nurses, more important in many ways than doctors for patients' day-to-day well-being in hospital, increased from 358,000 in 1979 to 387,000 in 1982, stayed static until 1984 and rose slightly to 401,000 in 1985. Another cause of pressure, reducing improvements to services, is pay for NHS staff which, as elsewhere in the public sector, has consistently exceeded the Government's very low targets. As NHS budgets are cash limited, pay awards over the target have to be met from existing resources or efficiency improvements. What happens outside both the hospital and the GP surgery also affects public attitudes. For example, the policy of moving some mentally ill people out of institutions into the community, together with the general policy of having people at home or in the local community rather than in hospitals, has important implications for local support services, most of which are the responsibility of the local authority.

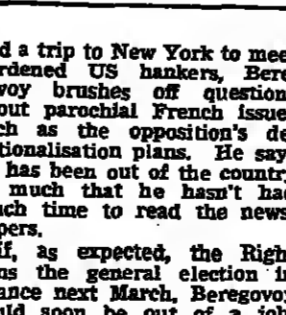
So while in-patient beds and services for the mentally ill and mentally handicapped show a fall of about 2.5 to 3 per cent a year on average since 1979, this implies a hefty transfer of responsibility to the social services and local councils, not all of which have been able to cope. Last week's public spend-



Left wing power in 1981—the newspaper said the socialist policies were favouring the rich.

Men and Matters

Left wing power in 1981—the newspaper said the socialist policies were favouring the rich. All of which leaves Beregovoy unperturbed. "I take criticisms from L'Humanite often as a compliment," he says.



and a trip to New York to meet hardened US bankers, Beregovoy brushes off questions about parochial French issues such as the opposition's de-nationalisation plans. He says he has been out of the country so much that he hasn't had much time to read the newspapers.

If, as expected, the Right wins the general election in France next March, Beregovoy could soon be out of a job. Meanwhile, he is making the most of praise heaped on socialist economic policies by New York bankers. The communist daily L'Humanite—starkly opposed to the socialists since the communists quit the government in 1984—hit out this week at Beregovoy. Reflecting on the "orgies" taking place on the Paris bourse—where share prices have nearly tripled since the

the authorities below par, though none of them is more than 5 per cent below. The four Thames regions all remain above the line but all are well down on their 1979 proportion of resources with the result that periodic queuing accompanied by very real crises develop from such important centres of excellence as University College Hospital, Guye and St Bartholomew's. Last week seven London hospitals stopped all non-urgent admissions in response to the cut in beds as part of the cut-backs.

To avoid situations such as UCH closing wards due to lack of cash, or Guy's announcing it may have to restrain its renowned cardiac and renal programmes, Mr Fowler should probably have tried to give the poor areas relatively more that the better-off rather than force red cuts on the south. He now seems to have accepted this by announcing a review of the system of resource allocation.

In short, the disaggregated figures show that the Government is neither doing as well as it claims nor as busy as its opponents claim; some areas and sectors are improving, others are declining. But on one count the Government is clearly not doing well and this more than anything might account for the long build-up in the public mind: the NHS is in mortal decline: as the country's wealth, living standards and life expectancy go up, so do expectations. Yet Britain spends a lower proportion of its national wealth on the NHS than many other major countries.

In 1980, Britain and Sweden led the world, spending 3.4 per cent of GDP on public sector health programmes compared with an average 2.5 per cent for the OECD states. By 1981 Britain was spending 5.4 per cent of GDP compared with 8.9 per cent by Sweden. At least seven other states spent a higher proportion than Britain which was below the 5.8 per cent OECD average. The British proportion is now 4 per cent.

But to return to the 1980 position as head of the queue with Sweden, whose proportion is approaching 12 per cent, would require Britain to allocate another 8 per cent of GDP to the NHS—an extra £28bn in 1985-86, which would raise public spending totals by 20 per cent.

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Observer

Hall retires from Hawker

It was typical of Hawker Siddeley's low profile style that the announcement of the resignation of Sir Arnold Hall, group chairman for 18 years, was made in a six-line statement.

And only three of those lines were devoted to Hall, one of Britain's most distinguished engineers and industrial managers. The other three recorded that Sir Peter Baxendale, former chairman of Shell, would become the new chairman.

Hall first came to prominence as head of the Royal Aircraft Establishment team that investigated the De Havilland Comet disasters in the 1950s. And he has led Hawker Siddeley since 1987 through a period of major growth, in spite of recession in the industry's large aerospace interests, in 1977 and the severe recession of the early 1980s.

Again, in Hawker style, both men were out of the country when the announcement was made yesterday, and thus unable to comment on a milestone in British industry.

Hall, who is 70, might have argued that it is not much of an event because he has gradually been disengaging himself from the group since 1981. He gave up the managing director's job and in 1984 became non-executive chairman, although there is no evidence that his influence at the group's London headquarters has declined. Hawker is planning to bring out a new corporate identity scheme later this year, but it remains to be seen if the transition in the boardroom will bring about any significant changes. Baxendale, who is 60, seems very much in tune with the Hall style, an intellectual (his field at the Royal School of Mines was petroleum technology) who became a successful manager. He made his name at Shell on one development of the group's interests in Nigeria, where he worked for much of the 1960s and early 1970s. Like Hall, he has tended

Sea change

Who says that the job of a merchant navy captain is ever more mechanical and boring? Capt Gerard De Rosa, the volubly ex-captain of the elderly cruise liner, Archille Lauro, would not agree.

It was his ship, of course, that was hijacked by Palestinian terrorists last October. For 52 hours, De Rosa was at the centre of a drama that claimed the life of Leon Klinghoffer, an American passenger, but later ended happily for the other passengers and crew.

Now Francesco Palagi, an Italian film producer, is planning to make a film of the story. He has chosen none other than De Rosa to write the draft script. The delighted mariner has already completed the first scenes, starting with the brush-off of questions about parochial French issues such as the opposition's de-nationalisation plans. He says he has been out of the country so much that he hasn't had much time to read the newspapers.

If, as expected, the Right wins the general election in France next March, Beregovoy could soon be out of a job. Meanwhile, he is making the most of praise heaped on socialist economic policies by New York bankers.

The communist daily L'Humanite—starkly opposed to the socialists since the communists quit the government in 1984—hit out this week at Beregovoy. Reflecting on the "orgies" taking place on the Paris bourse—where share prices have nearly tripled since the

Spartan prospect

Frank Fitzpatrick is clearly the sort of person that things happen to. Less than 18 months ago when he was BL finance director he was approached and offered a top planning job at Midland Bank. Now it has happened again. "I was sitting here minding my own business..." he says. On the line were headhunters wondering whether he might be interested in being the next finance director of the BBC.

Fitzpatrick, who is a long way from being a publicity-seeker and has never appeared on television, admits that after the initial surprise he was intrigued by the possibility. "I regard the BBC as one of the best broadcasting organisations in the world as far as one can tell from this island."

The prospect of being financial supremo in an organisation that will soon be handling sums close to £1bn a year, instead of number two to Midland's group financial director Michael Julien, appealed. The move from the City to Broadcasting House will probably hurt a bit. Gone are the bonus schemes and most of the perks of the City. "The BBC looks cheap—very tight indeed. Certainly spartan by City standards," says the corporation's new finance director.

**Off-takes**  
Alleged graffiti on Euston station: "In People's China, the workers take the lead," and written underneath: "In capitalist Britain, they also take the copper, iron, floorboards and fillings from your teeth."

CONSUMER POWER is on the march in Europe—and the farmers and chemical manufacturers against whom it appears to be directed are deeply worried.

The cause for their concern is a recent EEC decision to ban the use of artificially-implanted hormones as growth promoters in beef production. The move, which takes effect in most Community countries in 1988, follows five years of intense lobbying by consumer and "Green" groups in continental Europe.

Scientists appointed by the European Commission actually cleared three of the five hormones products involved as safe for use in meat production in 1982, and were on the point of giving a clean bill of health to the other two.

But such evidence was swept aside in the European forum. Consumer groups argued that the public wants food produced without interference from artificial techniques or substances. To spice the issue up, there were horror stories of massive hormone doses being discovered in veal-based baby foods in Italy, and of a large black market in the products in Belgium, Luxembourg and northern France.

The scientists are furious at what they see as a cavalier disregard of their views by politicians.

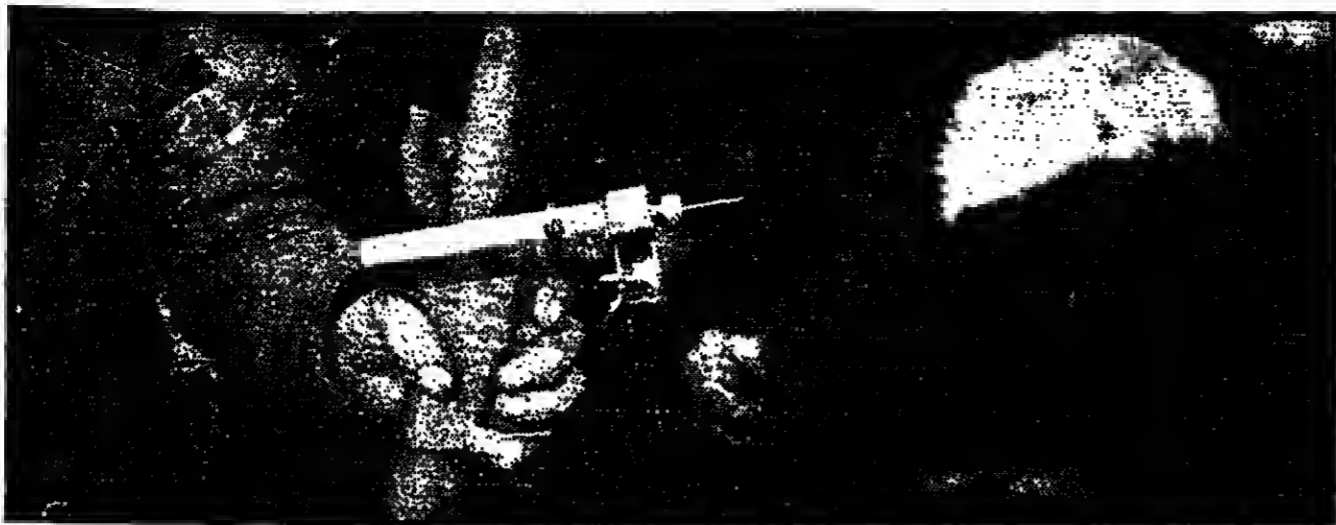
And although many farmers in Europe were prepared to go along with the ban, those in the UK—the EEC's biggest users of hormone products—are hopping mad. They see the decision as an important defeat for their intensive production techniques at the hands of what they see as an ill-informed consumer lobby.

The move also threatens to make a small but significant dent in chemical companies' lucrative sales to the farming industry. Furthermore, the manufacturers are warning that the decision puts at risk sizeable amounts of biotechnological investment in similar products aimed at tampering with animal metabolisms—not to mention the vast sales of pesticides, fertilisers and animal antibiotics which they fear may be next in line for consumer action.

And there may be additional ripple effects in the EEC's trade with other meat-producing countries—principally the US, which exports about \$100m worth of beef products to Europe a year, mainly in the form of offal. American farmers are big users of growth-promoting hormones, and there are fears that they may find their exports kept out as a result, raising the possibility of retaliation.

Within the EEC, though, the strongest initial effects of the ban will be felt in Britain and Ireland. British farmers use more hormone implants than any other European farmers because they produce a large

### EEC HORMONES BAN



Sussex farmer Martin Holden with beef cattle and hormone implant gun

## Another shot of politics for the beef farmer

By Andrew Gowers in London and Ivo Dawney in Brussels

quantity of their \$1.92bn worth of annual beef output from steers (castrated young bulls).

These animals respond to implantation of hormones by growing up to 10 per cent faster than they would otherwise; young uncastrated bulls, which form the backbone of beef production in West Germany, for example, do not need such growth promoters.

The National Farmers' Union reckons that the decision to ban hormones will cost the British livestock industry about £40m a year in lost efficiency, and add 4p a pound to the price of beef in the shops.

As to the manufacturers and distributors, such as Eli Lilly's subsidiary Elanco, Hoechst of West Germany and Syntex, the immediate loss is small; the British hormone product market is worth only £5m or £6m a year, and hormone implantation is already banned under national legislation in several Community countries.

The chemical companies' worries focus, though, on the implications for other related sectors of their business.

Take Eli Lilly, for example. The company is at present considering whether to undertake an investment costing tens of millions of pounds, involving a growth promoter for dairy cattle, at its Liverpool plant. But its US parent's attitude to UK investment has already been soured by the British Government's decision to restrict the drugs that can be bought under prescription on the National Health Service.

The move to ban hormones could well be the last straw. What has really upset farmers, manufacturers, scientists, British Government ministers and even some consumer organisations is the way the decision was taken—politically, without waiting for the full scientific evidence on the subject.

Mr Michael Jopling, Britain's Farm Minister, is considering a legal challenge to the decision in the European Court on the grounds that it was taken by a majority vote rather than unanimously. Ministerial unanimity under Article 100 of the Treaty of Rome has normally been required in the past on veterinary matters.

More importantly, the companies worry that the overly "political" approach may eventually be brought to bear on the intensive use of

fertilisers, antibiotics and pesticides in agricultural production. Many consumer groups believe there are greater grounds for legitimate concern here than in the case of hormones.

"The EEC has not progressed one step with this decision," says one prominent British consumer lobbyist. "Of the three issues—pesticides residues, antibiotics and hormones—hormones are by far the smallest as a health risk."

One of the most worried companies is the US fertiliser giant International Minerals and Chemicals. It has a substantial share of the world hormones market with Kellogg, distributed in the UK by Crowe Chemicals, a small independent company based in Kent. I.M.C. fears that the EEC decision could prompt governments in other meat-producing countries—particularly in the Third World—to question the use of hormones.

"Sure, we can survive without hormones," says an executive with another company. "But we are a science-based company, and if things are going to be banned in Europe on non-factual grounds, there's no future for us here."

To understand the EEC decision, it is necessary to go back to 1980, when consignments of veal-based baby food in Italy were found to contain huge quantities of the hormone diethyl stilboestrol (DES). There were reports of male babies growing breasts as a result and, at one point, consumption of veal in its prime Italian market dropped by 60 per cent.

The upshot was a Community-wide ban on the use of stilbenes (the generic term for the group of hormones including DES).

But as far as the consumer groups were concerned, the damage had already been done. The Bureau of European Consumer Unions (Beuc) launched a campaign for an outright ban on all hormones.

The consumers argued that an outright ban would ensure all farmers were treated equally, that it would be easier to police than selective restrictions and would remove incentives to use veterinary or other devices to find a way round the rules; and that it would curb the further growth of the EEC's record beef surplus.

Whatever the facts, the campaign struck an emotive chord in a number of European countries—particularly West Germany, where the influence of the Greens remains a potent force—and led finally to a

European Commission proposal in June 1984 for a ban on the most common artificial products, trenbolone acetate and zeranol.

The Commission argued that no scientific evidence existed for the outlawing of the "natural" hormones progesterone, testosterone and oestradiol-17-beta. These three were cleared by an expert committee appointed by the Commission and chaired by Prof Eric Lamming of Nottingham University.

Despite a lukewarm initial response to the idea from ministers, political pressure continued to grow—resulting in a massive vote in the European Parliament in favour of banning all growth promoters last autumn, and the Commission's subsequent proposals for a complete ban.

Prof Lamming does not disguise his amazement over the majority of ministers invading the eminent scientists from 10 EEC member states, has been treated. He had been planning to complete his report on the remaining two hormones by the end of last year. But in October, following the Parliament vote, his group was summarily disbanded by Mr Frans Andriessen, the EEC farm commissioner.

"If you legislate in haste, you repent at leisure," Prof Lamming said this week. "He (Mr Andriessen) was not going to say, but what we had said. His suspension of the group came as a complete surprise."

"Certainly this is without precedent in any scientific advisory committee in the national government. And in any case the majority of ministers invading the Commission and chaired by Prof Eric Lamming of Nottingham University, the EEC farm commissioner."

Mr Andriessen is unperturbed. "Do you really believe that public opinion is concerned by scientific judgment or by a political decision?" he asks at a recent conference in London last November. "In public opinion, this is a very delicate issue that has to be dealt with in political terms. Scientific advice is important, but it's not decisive."

Mr Tony Venables, Beuc's director, believes that legislators were persuaded to go for a complete ban by the beef surplus argument. "If we have a beef mountain of 700,000-odd tonnes, it only makes matters worse to use out-of-date hormone growth methods," he says. "And why should legislators be bound by scientific committees?"

Significantly, the same arguments have been applied to the sale of fertilisers in contributing to the cereals surplus—even by some senior figures in the National Farmers' Union.

Few people now believe that the Commission or the farm ministers will reverse the hormones ban. The best, perhaps, that the chemicals industry can hope for is that the rot stops there.

### Lombard

## Time to fall in step with Japan

By Michael Prowse

THE Alice in Wonderland world of international finance is packed with the strangest sights and sounds. One of the delights for aficionados of this theatre of the absurd is the way American and European politicians shamelessly lecture the Japanese on economic policy. Deregulate that, boost this, export less here, and so forth; the motto of the Bakers, Lawson and Beregovoy of this world seems to be: if you only emulate us, your problems will be solved.

It is as though a collection of dunces were assembled to lecture a school's scholarship class. As the Japanese economy matures it is undoubtedly encountering new strains and pressures but it still remains an outstanding example for the rest of the industrialised world. To argue that Japan must change its ways because the world is marching to a different tune makes no sense. The odd thing is that the Japanese are still so meek and so easily lectured.

A good example of the doublethink that is enveloping the financial community occurred in London last weekend at the G5 meeting. Mr Norburo Takeshita, the Japanese finance minister, announced that he was reviewing the system of tax incentives for saving that have been a hallmark of the Japanese economy for decades. It looks possible that the policy of allowing tax-free interest income on small savings accounts up to the equivalent of about £10,500 will be reversed.

### Allowed

Mr Takeshita has no doubt noticed that in "advanced" economies such as the UK or the US, a quite different set of fiscal policies holds sway. As in other areas of economic policy he now seems to be scurrying to jump into line. The hallowed Anglo-American doctrine, lovingly embraced by politicians of all stripes, is that tax incentives for borrowing, particularly for house purchase, are absolutely essential. The different fiscal regimes, partly explain why in 1984 gross

savings were 32 per cent of GDP in Japan compared with 19 per cent in the UK and 17 per cent in the US.

The wrongheadedness of Japanese tax policies is, of course, demonstrated by the fact that Mr Takeshita has had to jump through a series of artificial hoops in recent months in order to get his interest rates up closer to the respectable level of countries like Britain and America. If only the Japanese would adopt sensible Baker-Lawson incentives for consumer borrowing, Tokyo too could enjoy interest rates high enough to cripple domestic industries. Such a public spirited action by Mr Takeshita would help ease these protectionist pressures Japan has thoughtlessly fanned by producing quality goods so cheaply, and help get the dollar down.

### Deliberate

The irony unnoticed by the world's finance ministers is that there are no "incentives" as such for personal saving in Japan. All the Japanese do is refrain from the double taxation of savings practised in the UK and US. Fiscal neutrality requires not that interest income be taxed like any other sort of income but that it not be taxed at all. The point that never seems to be grasped is that savings are made out of taxed income; to tax the return on taxed income is to introduce a deliberate bias in favour of immediate consumption.

Given the power of Congress and its vulnerability to lobbyists, it is perhaps unsurprising that the US Treasury has failed to reform the taxation of saving. The same cannot be said in the UK. The Conservatives have a huge majority and Mr Lawson with a stroke of the Budget pen could introduce in Britain the tax system Mr Takeshita is so keen to dismantle. Besides encouraging thrift and investment (surely *bona fide* Thatcherite ideals), it would do much more to promote a share-owning democracy than the sale of state assets at knock-down prices.

### Fixed exchange rate

From Professor A. Melitz  
Sir—Rumours of a return by Britain to a fixed exchange rate filter across the Atlantic periodically. Once again, the rumour comes that Britain may choose to join the European monetary system. I hope the rumour is false because, I believe, a fixed exchange rate with the EMS is the wrong policy for Britain, especially at this time.

The pound is often described as a petro-currency. This overstates the case, but it is none the less true that the external value of the pound changes with the price of crude oil. The pound strengthens when oil prices rise and conversely.

Dollar oil prices are expected to decline significantly in 1986. If these forecasts are correct, as speculators now believe, the real value of a barrel of oil in pounds may decline as much as 20 per cent in 1986. If Britain retains a fluctuating exchange rate, a decline in oil prices of this magnitude would cause the pound to depreciate against other currencies, particularly against the currencies of oil importers. Depreciation would raise the domestic prices of imports but would increase exports, production and employment of non-oil goods and services.

The principal countries in the EMS are oil importers. Fixing the exchange rate for the pound against the currencies of these countries imposes a contractive policy under the circumstances anticipated for 1986. To maintain a fixed exchange rate, Britain would have to raise interest rates and depress the domestic economy if the anticipations prove to be correct.

This seems a poor policy for Britain in 1986. It exposes Britain to the type of problem experienced in the 1920s, when employment was sacrificed to maintain a fixed exchange rate. While there are many differences between the present and the 1920s, there is no difference in the principal effect of a fixed exchange rate: the internal value of the currency must adjust to its external value. When internal prices and wages adjust slowly, disturbances abroad impose costs of adjustment at home.

It is difficult to see the benefits to Britain in 1986, or over a longer period, that would offset these costs. Those who point to the greater stability of exchange rates should not stop there. The exchange rate is not costless, but costly, and in my opinion more costly than allow-

### Letters to the Editor

ing exchange rates to fluctuate. Professor Allan H. Melitz, Carnegie-Mellon University, Schenley Park, Pittsburgh, Pennsylvania.

### Writing risks in the US

From Mr R. Sheehan  
Sir—As an insurance broker woefully short of market for US legal liability risks I was interested to read your article of January 16. I hope that Messrs Nader and Hunter will do something constructive to assist the present capacity problem. As I am sure it is realised it is capacity which has one of the greatest influences on price.

practical terms may I suggest that they seriously think of forming an insurance company to write the risks which they presently perceive as being overpriced or where no market is available. While I would encourage them to do so, I would have to point out certain important facts. In order to avoid the recent problems where many insurers pulled out of the classed like US legal liability business they would have to convince prospective clients that they will be able to "stay the course." As I am sure they realise it takes a long time to settle legal liability claims; the injury needs to manifest itself; there has to be an investigation into the cause; and there has to be an adjudication that the assured is legally liable. This can take many years, in some cases such as asbestosis claims it can be decades. The insurers must still be in business to settle the claims. Of course the longer you stay in business the more policies you write requiring you to stay in business longer and so on ad infinitum.

Also they would have to convince prospective clients that they could run an insurance company competently. They will need to underwrite competently, but sensibly. They must administer the company, handling policywork, premium investment and claims. The claims side of the business is very important so they will have to investigate the claims satisfactorily, pursue rights against third parties and pay the claims. There is one crumb of comfort, they probably will not have to look too far for business. There is plenty of it about. Just convince the

buyers that they will be a good long-term market, particularly when competition revives.

A very important aspect of course is adequate capitalisation. By and large it is a good thing to have reserves but this may not be vital since they would be just starting up. They would do well to stick to the 2 for 1 ratio that Lloyd's applies for the security of the policyholder. Of course this would mean a capital in excess of \$1.5bn if they were to attempt to depose Lloyd's in the US. This is based on the \$3bn figure given in the article though I must admit I was under the impression that the figure was twice that amount—in which case the capital would have to be \$3bn.

There is an urgent need for more capacity so its probably best to get into the capital markets as quickly as possible and not waste time talking to the British Labour Party. Some one is bound to point out to them that its primary duty is owed to the British taxpayer and it would be inconsistent for it to give its support to a crusade which is entirely designed to maintain and indeed enhance a higher standard of living in the US at the expense of Britain's invisible export earnings.

Besides, talking to capital markets it would be of great help for them to talk to anyone who could improve the legal climate in the US. This applies to court awards and legislation. If they can do something to temper the present situation it would greatly assist the chances of survival of any insurance endeavour they might start up. I do hope that they will appreciate this advice. Richard A. P. Sheehan, 50 Cadogan Place, SW1.

### The travel trade

From the Chairman, Exchange Travel Holdings

Sir—The expertise of the City of London in terms of financial services is assumed to be second-to-none in the world. I beg to differ! As far as the travel trade is concerned, the City experts fail to differentiate between the various sectors which, combined, are referred to as the travel trade.

An example of this lies in the present price war between, principally, Thomson and Inta-

sun. The City's attitude to this is "Steer clear of the travel trade!" Yet retailers in the High Street benefit enormously from this price war as it stimulates holiday purchases far in excess of the lowering of income tax and reduced corporation tax alone has increased its summer capacity from 1.1m in 1985 to 2.25m in 1986 and, due to the substantial penalties it has imposed upon itself in the event of cancellation, the 2.25m must be sold. In the light of these circumstances, while the tour operating sector will be facing up to low or non-existent profits, the retailers will be in a most profitable phase.

Gordon L. McNally, Exchange House, Parker Road, Hastings, East Sussex.

### Building cash mountains

From Professor J. Brignell

Sir—A perceptive editorial (January 17) on the GEC bid for Plessey made the point that this was not automatically a Good Thing, a point of view not apparently shared by a columnist in the same day's Times. Share size does give a company some advantages. As a hypothetical example a company could threaten to put a town out of work if it failed to obtain a contract. This threat would nullify the technical argument which points to better qualified competitors. The tab might then be picked up by the taxpayer under a later government.

Arguments can rage as to the management structures of companies like English Electric and AEI but they also had some of the world's most outstanding research and development teams. Who can judge how much the absent product of such teams is responsible for a current industrial malaise? A further advantage of size is that competitors are forced to fall in line with one's policy, whether it is in the national interest or not. Thus if an industrial giant gains an advantage by such actions as reducing profit horizons others may be forced to follow suit.

Plessey is widely regarded as one of the more creative of our major electronics companies, but perhaps logic dictates that in the current justic financial climate its board should sell all the assets and put the money in a building society. Chairmen who stray into taking a long view tend to be nominated for ritual sacrifice in the City. Short term profit and the building of cash mountains seem to have displaced long term technological investment, but uniquely in the UK. Professor J. E. Brignell, Department of Electronics and Information Engineering, University of Southampton, Southampton, Havts.

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FINANCIAL TIMES

Friday January 24 1986

BELL'S SCOTCH WHISKY BELL'S

James Buxton reports on growing fears over the survival of the Italian Government

Craxi a victim of his own success

THE ITALIAN Government decided yesterday to seek the cooperation of the opposition parties in winning parliamentary approval for the 1986 Finance Bill...

The defeat came only one day after the Government won a vote of confidence, but there are now fears that the Craxi Government may not be able to survive much longer in its present form.

Wednesday's vote of confidence was called to reverse an earlier defeat on a clause in the Finance Bill. But the practice of calling a vote of confidence - which is virtually routine - did not work its usual magic...

Italian Members of Parliament are, with the exception of the Communists, far less disciplined than those of most European countries. Unlike almost every parliament in the democratic world, dissident MPs in Italy can cause grave damage to the governments they are supposed to support...

mentary voting is by means of a secret electronic ballot. So government MPs, usually from the large and factious Christian Democrat Party, can vote against their party line without having to make their decision public.

That is what about 40 government deputies appear to have done in the Chamber on Tuesday when they were asked to vote on a clause early in the Finance Bill, which would substantially raise charges for Italy's heavily subsidised university students.

Their action might not have been decisive, however, had it not been that about another 100 government MPs, out of a total of 366, were absent from the Chamber altogether. Yesterday's defeat was caused by the same combination of factors.

By presenting the clause again and linking it to a vote of confidence in the Government as a whole, the Craxi Administration was able to reverse the defeat the next day. The "franchi tiratori", or concealed snipers, who had voted against the Government, could not repeat their trick because a vote of confidence is taken by means of a public roll call, in which each MP has to declare himself.

But the affair still has ominous implications for the Government. The voting on the Finance Bill, which contains a mass of measures that affect everyday life, is usually the time when Parliament is at its most attentive.

For many observers the lack of interest of so many MPs reflects the discontent that has afflicted the whole Craxi Administration for several months.

The Government almost fell last October over the repercussions of the Achille Lauro hijacking. Thanks to considerable constitutional ingenuity, it was reinstated with its composition unchanged, but with an objective that amounted to little more than getting the 1986 Finance Bill approved as soon as possible.

What would happen after that was - and is - anyone's guess. Mr Craxio de Mita, the Christian Democrat leader, has made no secret of his wish to see the prime minister's office in the hands of the Socialist Mr Craxi, and restored it to a representative of the party that has held it almost without interruption since the Second World War.

Mr de Mita would also like to ob-

tain at least a firm commitment on an early handover of power before he faces his party congress for re-election in May.

Mr Craxi, needless to say, thinks otherwise. He has been in power for almost 2 1/2 years, holding the record for the longest surviving Government Italy has seen since the Second World War. He enjoys power and the fact that he has retained it so successfully speaks for itself.

How much his Government has actually achieved, beyond giving Italy the priceless gift of continuity, is a separate question.

But Mr Craxi's Government is in a sense a victim of its own success. Governments everywhere need periodic renewal - new faces in ministerial posts and new policies. But cabinet reshuffles in Italy have such serious ramifications affecting the intricate balance of power, within and between the ruling parties, that they are normally possible only when there is a completely new Government.

death of ministers or otherwise unavoidable transitions.

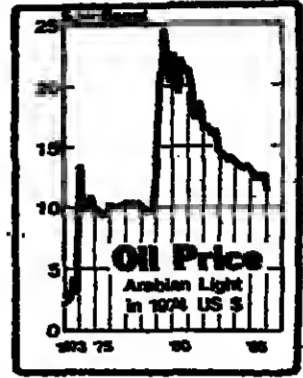
There are now several ministers who, it is generally reckoned, ought to be replaced, and others who are keen to move from the tedium of office to politically more rewarding party posts. Furthermore, there are plenty of men who did not get ministerial posts when Mr Craxi came to power in 1983 who are still out in the cold - and thus easy recruits for the franchi tiratori.

In the past, when governments changed on average every 10 months, that situation would have been remedied long ago. But as Mr Gianfranco Piazzesi, one of the country's leading political commentators, wrote in the newspaper La Stampa yesterday: "Slow process of rotation is altering the biographies of the political world."

Adjusting to the new vibrations emanating from the core of Italian political life is likely to be painful. So might be the coming battle between Mr Craxi and Mr de Mita over who rules the country between now and the end of the present Parliament in 1988. Meanwhile, the Government might proceed, in Mr Piazzesi's phrase, rather like the Paris-Dakar motor rally: an average of four prangs a day.

THE LEX COLUMN

Black gold at a discount



The oil market might have expected Saudi Arabia to turn up the heat yesterday and the UK Government to continue to sit tight, despite the understandable desertion of Norway...

Shell are ready and able to rein in capital expenditure. If dividend growth is off the cards for the next two years, yields for the majors of under 10 per cent must be vulnerable to the attractions of fixed-interest investment.

Coats Patons

The effect that can be achieved by a bold, brief statement is quite remarkable. Coats Patons' announcement that it had received an approach which may or may not lead to an offer immediately lifted the company's share price by a quarter and left its shareholders, on paper at least, £144m better off.

Coats is in some respects an obvious target, offering just the combination of brand names, solid assets and cash generation which everyone on the takeover trail currently finds so attractive. But, while it is possible to arrive at a value at least 20 per cent above last night's price of 201p simply by attributing multiples to the earnings of the individual divisions, it is not easy to see how that value could be realised.

Profits from Coats' South American - and even Mediterranean - operations are not of the highest quality; nor are they easy to remit. Moreover, Coats is locked into so many companies with outstanding minorities that unravelling the business would be a nightmare. Precision engineering is admittedly self-standing and a concept retailer would no doubt be happy to take both Jaeger and Country Casuals off the group's hands for a fancy price. But Coats is, for the most part, an integrated textiles business and the likelihood must be that the source of the bid approach lies somewhere in the textile trade.

By yesterday evening, the stock market had run through about 12 contenders and had alighted on Courtaulds as the most likely bidder. While a friendly merger between the two might have a few merits - Coats could benefit from the injection of the more incisive management of its near neighbour in Hanover Square - Courtaulds would have a job justifying the deal to its shareholders.

Coats hardly squares with the stated Courtaulds strategy of improving earnings quality by acquiring speciality chemical interests in North America. Putting Coats and Courtaulds together would have much the same effect as merging ICI with a polyethylene manufacturer.

Now that relative size has ceased to be a restraint on takeover speculation, the market has an almost limitless list of other potential bidders to choose from. Entrad, Vantona and Tootal were all being mentioned in despatches yesterday. You pays your money and you takes your choice.

Westland

As so-called long-term institutional holdings crumble (at sufficiently silly off-market prices) the Westland share register is taking on a strikingly clothed appearance. By the time Westland's latest reconstruction scheme is put to shareholders next week, almost all the shares will doubtless have coagulated into two roughly equal and opposing blocks. The value of these shares which have yet to solidify is likely to be levered upwards until one or other side is convinced that it has bought enough for safety.

If Westland is no investment for the Prudential - which perhaps wants to shake off the more virginal overtones of its "responsible proprietor" act - then it is the more certainly no place for the individual investors who have been losing out since the horse-trading started. Though really fancy prices, like the 150p which the Pru accepted from Sikorsky, are reserved for large players, normal stock exchange floor trading in Westland has - up to a point - reflected the auction taking place upstairs. Any remaining small holders who can still get the 130p or so that was available in the market yesterday should surely do so.

French about-face on SDI contracts

By David Marsh in Paris

MR PAUL QUILLES, France's Defence Minister, said yesterday he was in favour of French companies taking part in the US Strategic Defence Initiative (SDI) research programme.

In a switch from the Government's previous lukewarm attitude about participation by French firms, Mr Quilès said it would be "regrettable" if companies such as the state-owned Compagnie Générale d'Electricité (CGE) electronics concern could not win SDI contracts.

Although Mr Quilès said that his statement did not change the French Government's opposition to the strategic concept of SDI, it amounts to a marked change of tone.

His remarks, made during a visit to CGE's research centre at Marcoussis, near Paris, will be interpreted as giving a green light to the cluster of French high-technology companies keen to do business with the SDI organisation in Washington.

They also confirm the view of the US that France will inevitably have to show greater interest in participating in SDI to avoid falling behind in key military technology compared with Britain and West Germany. The UK has already signed an agreement with the US over SDI participation, while the details of a similar accord involving German companies are being discussed by Bonn and Washington.

Among the French groups showing interest in SDI apart from CGE, whose Cilas subsidiary has a European lead in military lasers - are Thomson Aerospace and Matra.

The first three companies are nationalised, while Matra - which was the first French group to declare outright public interest in SDI contracts - is owned 51 per cent by the state.

Up to now the French Government has declared it would not oppose SDI participation by French companies or research institutes, but has stopped well short of endorsing any such involvement.

During his visit, Mr Quilès announced that France would be starting full-scale military laser experiments at the ballistic missile test centre in Landau.

Even though France remains sceptical about the feasibility of mounting a "leak-proof" anti-ballistic missile defensive shield, it is interested in exploring means to defend key military sites such as rocket silos and command installations from nuclear missile attack.

Peres talks in London place more pressure on Hussein

By ROGER MATTHEWS, MIDDLE EAST EDITOR, IN LONDON

MR SHIMON PERES, the Israeli Prime Minister, held further talks in London yesterday with Mr Richard Murphy, the US assistant Secretary of State, after what Israeli officials described as "two nights of agonising" over ideas for advancing the Middle East peace process.

A spokesman for Mr Peres claimed that half of the obstacles that had prevented direct negotiations with King Hussein of Jordan had now been overcome. The problems that remained were not easy, but they were not insurmountable.

Israeli officials are confident of King Hussein's desire to make progress, and say he and Mr Peres share the same sense of urgency. "King Hussein knows that one way or the other, he will have to make an historic decision within a few weeks," said an Israeli official.

Israel is urging King Hussein and Western European governments to accept that Mr Yassir Arafat, the chairman of the Palestine Liberation Organisation, has finally dealt himself out of the peace process. Mr Peres's Aides argue that it has been

a tragic mistake for the past 20 years to believe that the PLO was capable of change.

In particular, they point to Mr Arafat's refusal to provide a clear answer to the demands of King Hussein and President Mubarak of Egypt that he should renounce terrorist acts and accept United Nations resolutions 242 and 338, which guarantee Israel's right to exist.

Israeli officials want King Hussein to find Palestinian negotiators among those living under occupation in the West Bank and Gaza. They claim there is a substantial body of support for the King in the territories and that moves towards the negotiating table would be enthusiastically welcomed in the West Bank.

It is also accepted by Mr Peres that King Hussein requires some form of international framework for the negotiations and that it is understood to have taken up a large part of the Israeli Prime Minister's discussions this week with Mr Murphy.

However, Mr Peres fundamental-

ly opposes the Soviet Union's being allowed to play a role unless it agrees to re-establish diplomatic relations with Israel.

Israel believes that Britain and other members of the European Community could help to facilitate this international forum, which it sees as an umbrella for the peace process but not a substitute for face-to-face negotiations.

Sir Geoffrey Howe, the British Foreign Secretary, told Mr Peres on Wednesday that Britain would be ready to participate in an international forum if the right formula could be found. But there are also strong fears in Whitehall about the dangers to King Hussein if he enters negotiations with Israel without any form of PLO co-operation and in direct opposition to the wishes of Syria and other Arab states.

● Mrs Margaret Thatcher, the British Prime Minister, said last night that she hoped to visit Israel in the summer to continue the talks she has held this week with Mr Peres. Lebanon militias clash, Page 3

Fed board nominees defend autonomy

By Stewart Fleming in Washington

PRESIDENTIAL nominees to two key posts on the seven-member Federal Reserve Board, who some fear might help to tilt monetary policy in a more expansionary direction, yesterday defended the independence of the Central Bank in confirmation hearings before the Senate banking committee.

During more than four hours of questioning, Dr Wayne Angell, a professor of economics at Ottawa University in Kansas, and Dr Manuel Johnson, described in the hearings by Senator William Proxmire as one of the architects of President Reagan's economic policies, argued that the independence of the Central Bank from political pressures had made a large contribution to promoting economic stability in the US.

Both men are expected to be confirmed, bringing to four the number of members of the Fed board who have been appointed by President Reagan. There has been speculation that that shift may make it more difficult for Fed Chairman Mr Paul Volcker to dominate the central bank's board proceedings.

But it is pointed out too that so far as key monetary policy decisions are concerned, those are arrived at in the Federal Open Market Committee, the 12 members of which include (on a rotating basis) five presidents from the 12 regional Federal Reserve banks. Over the past two years, a number of new appointments to the top jobs in regional Fed banks have been filled by individuals widely seen as sympathetic to Mr Volcker's views on many issues.

Dr Angell, who has been backed heavily by the Republican Senate majority leader Mr Robert Dole, is a 65-year-old economist, but a man who has spent his life farming in Kansas, where since 1972 and 1975 he has also been president and chairman respectively of two small regional banks.

Describing himself "a Fed loyalist" and a "hard money populist," Dr Angell, who also served as a director of the Kansas City Fed, placed heavy emphasis on the need to achieve price stability. "I do not believe the answer to the farmer's problem is in re-inflating," he said.

Dr Johnson, a 36-year-old economist who is currently assistant Treasury Secretary for Economic Policy, is expected to fill a 14-year term as a Fed governor, whereas Dr Angell is completing a term that expires in January 1984.

Third World presses Paris in credit war

By Our Paris Staff

THE US Government's \$300m "war chest" programme of cheap export finance is encouraging some developing countries to try to wrest even lower terms from rival exporters, led by France, Mr John Lang, director of trade finance at the US Treasury, said yesterday.

Mr Lang was in Paris for talks among the main industrialised countries over the use of "mixed credits" in trade financing. He said time was running out to secure an agreement.

This week's meetings at the OECD of trade officials made no progress on the issue of mixed credits. This was because the EEC failed to agree to meet a US request to raise the minimum-aid element in mixed credits to 50 per cent from 25 per cent to make them commercially prohibitive.

The issue of mixed credits is the practice under which governments tie together grants and export loans to cheapen financing on export bids to the Third World.

The \$300m war chest programme was announced by President Ronald Reagan in September. This represented a bid to match cheap mixed-credit packages put together particularly by France to back French companies in competition with the US on world markets.

ITT digital switch

Continued from Page 1

cess in selling System 12 in Europe and elsewhere into a strong competitive position in the US. Last year ITT attempted to accelerate conversion of System 12 to US standards by abandoning research work on 20 other projects at its advanced technology centre in Sheldon Connecticut.

However, ITT said yesterday that it had told United Telephone of Florida, a subsidiary of United Telecommunications, late last year that it would not now be able to meet the delivery schedule which called for installation in the 1986 fourth quarter.

The group said delivery could be delayed by a year although it added the delay "might be less or more" depending on United Telephone's selecting another site for installation. ITT, which has spent an estimated \$300m including \$100m last year alone on the US digital switch market, ITT has given no indication that it is prepared to abandon its US development and marketing efforts. The company, however, has subtly changed the terms in which it refers to the US market which it now terms "an opportunity" rather than a key test for System 12.

The implications of the delay announced yesterday stretch far beyond that order. ITT has sought to "short circuit" the complex Bell telephone system evaluation process by persuading BellSouth to install a System 12 switch on test late this year or early in 1987.

That test is crucial in ITT's attempts to sell the switch to the local Bell telephone operating companies which will account for the bulk of orders over the next few years. ITT has long been expected to announce its first commercial Bell system effort. ITT itself said yesterday that the delay will not affect its efforts to win a Bell system order.

In Europe, ITT has fallen behind on some delivery schedules although the group insists that it is "catching up" on delivery schedules overseas and fiercely denies rumours that it has lost any orders because of shipment delays.

Some Wall Street analysts believe, however, that ITT may eventually be forced to choose between meeting production targets in Europe and elsewhere - and the lure of competing in the US digital switch market. ITT has given no indication that it is prepared to abandon its US development and marketing efforts. The company, however, has subtly changed the terms in which it refers to the US market which it now terms "an opportunity" rather than a key test for System 12.

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ITC set for talks with creditors

By STEPHAN WAGSTYL IN LONDON

THE INTERNATIONAL Tin Council (ITC) looks ready to start negotiating with its creditors for a settlement to the three-month-old tin crisis.

The three countries of the 22-nation council that had been most opposed to negotiation - West Germany, France and the Netherlands - yesterday agreed that talks should start. The ITC, which managed a tin price-support pact, ran short of money in October when huge debts to banks and brokers on the London Metal Exchange (LME), the world's leading metals market.

While the members of the ITC now agree in principle to negotiate, they are still deeply divided on possible settlement terms. It remains to be seen whether they can reach common ground when the council resumes its emergency meeting today.

Moreover, it seems that any council proposals would fall far short of the creditors' demand so a settlement might still prove elusive.

The creditors' latest rescue plan calls for setting up a new company to take over the ITC's assets and liabilities, funded with £200m from governments, £50m from brokers and £20m from banks.

Yesterday the EEC - excluding the UK - said that even £100m from governments would be too high. An independent Dutch proposal suggested only a £30m contribution from consuming countries (which make up half the council). The UK, which has a special interest in the LME, is under pressure to put up more cash than just its ITC contribution. Delegates also want brokers, and especially banks, to concede more.

The creditors' patience is, meanwhile, running out. The LME authorities meet today to discuss whether to re-open the tin market, which has been suspended since October 24.

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World Weather

Table with weather forecasts for various cities including London, Paris, Rome, etc. Columns include city, temperature, and weather conditions.



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